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DISASTER LOAN PROGRAM

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BEFORE THE

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UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

DISASTER LOAN PROGRAM

CLINTON, ARK.—MARCH 29, 1983

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DISASTER LOAN PROGRAM

TUESDAY, MARCH 29, 1983

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Clinton, Ark.

The committee met, pursuant to notice, at 1 p.m., in the Clinton High School Gymnasium, Clinton, Ark., Hon. Dale Bumpers (acting chairman of the Committee on Small Business) presiding.

Present: Senator Bumpers.

Staff present: Mark Smolonsky, investigator; and Bill Massey, legislative assistant to Senator Bumpers.

STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator BUMPERS. This is a field hearing by the U.S. Senate Small Business Committee of which I am a member. Senator Lowell Weicker of Connecticut is the chairman, and Senator Sam Nunn of Georgia is the ranking member.

To assist me to conducting hearing of the Small Business Committee today are: On my right, Mark Smolonsky who is the chief investigator for the Small Business Committee in Washington. On my left is Bill Massey, from Arkansas who is the legislative director on my personal staff, and Pat Williams who is an administrative assistant in my Little Rock office. Bill does most of our disaster relief in Washington. Carol Kegley, who will be introduced later, is with Senator Pryor's office. Kay Goss, who will be a witness in just a moment, is here. I think almost everybody else here is either from the press or is here as a witness or interested observor.

The purpose of these hearings is to examine the operations and effectiveness of the disaster lending programs of the Small Business Administration, and particularly to determine whether the SBA has responded effectively to the disasters that have occurred in Arkansas. I am also concerned that the interest rates the law allows SBA to charge for disaster loans are too high.

As everyone in Arkansas knows, last December our State was hit by the worst storms and flooding in our history. Forty-seven counties were declared disaster areas by either the President or the Small Business Administration. Hundreds of millions of dollars in damage were done and the damage in terms of sheer human misery is incalculable. Thousands of Arkansans were left homeless and scores of businesses were destroyed or severely damaged.

No one expected these weather-related disasters. They struck swiftly, severely, and virtually without warning. In situations such as this, all of us expect our Government to respond quickly and effectively. There is a lot of talk these days about what the appropriate role of Government should be, and some people define the role of Goverment much more narrowly than others. But I think that everyone would agree that in a natural disaster, homeowners and business people whose property has been seriously damaged or even wiped out completely can legitimately expect their Government to come quickly to their assistance. They have the right to expect Government personnel to be courteous and helpful. And, they have the right to expect Government disaster relief programs to operate on terms that are rational and fair. After all, citizens who have had their property destroyed in floods or tornadoes have done absolutely nothing to cause their misery or losses, they are innocent victims, and they have the right to expect their Government to offer an open helping hand.

We are here today to examine how well the Small Business Administration has responded with disaster assistance in Arkansas. It is my hope that witnesses will give their opinions on whether SBA officials have performed professionally, and about whether SBA disaster assistance programs, as currently designed and implemented, have met the needs of Arkansans affected by the disasters. In particular, I am concerned about the rates of interest which the law allows SBA to charge disaster loans to homeowners and businesses. In the last few years, in an effort to achieve budget savings, the terms for SBA disaster loans have become progressively tighter. Under Public Law 96-302, which became effective July 2, 1980, homeowners were eligible for assistance at a rate of 3 percent on the first $55,000; for loan amounts in excess of $55,000, homeowners were required to pay close to a market rate of interest defined as the cost of money to the Federal Government. Under the 1980 law, homeowners qualified for these rates whether or not they were able to obtain credit elsewhere. Businesses were eligible for up to $500,000 in assistance; businesses unable to get credit elsewhere could obtain an SBA loan at a 5-percent-interest rate, but those able to get credit elsewhere had to pay a higher rate equal to the Government's cost of money.

When President Reagan sent his first budget to Congress in 1981, he proposed further limits on SBA disaster loans. First, under the President's proposal, no disaster loan could be made for either personal or business purposes to those disaster victims who had personal resources or alternative sources of financing. In effect, this would have excluded completely from SBA disaster assistance all business concerns or homeowners able to obtain financing from other sources.

Second, the President proposed that those who were unable to obtain credit elsewhere should pay an interest rate much closer to the market rate.

Although Congress didn't accept the President's proposal, Public Law 97-35 did place further limits on the availability of SBA disaster loans.

First of all, the new law extended the credit elsewhere test to homeowners as well as businesses to determine the interest rate. Homeowners unable to obtain credit elsehwere now pay one-half the cost of money to the Government plus up to an additional 1 percent at SBA's discretion, but not to exceed 8-percent overall. The interest rates for homeowners able to obtain credit elsewhere is set at the full cost of money to the Government plus up to 1-percent extra. For businesses unable to obtain credit elsewhere, the maximum rate is now 8 percent. For those businesses able to obtain credit elsewhere, the interest rate charged closely approximates the prevailing market rate.

In summary, over the last few years the so-called credit elsewhere test has been extended to homeowners, and their effective interest rates have more than doubled. Maximum rates for businesses unable to obtain credit elsewhere have increased from 5 to 8 percent, and rates for credit-worthy businesses have increased several percentage points.

I have, for several months, considered offering legislation to reduce these interest rates. To me, it makes no sense to require a homeowner or a business wiped out by a flood or tornado to pay an arm and a leg for a loan. I hope that witnesses here today express their views about the fairness of the current interest rates for SBA disaster loans.

The purpose of today's hearing is not to assess blame. Rather, the hearing is designed to provide the committee with the firsthand experiences of the victims of the disasters, and of the officials who are charged by law with the responsibility for providing assistance in recovery. The record made at this hearing can serve as the basis for the Senate Small Business Committee's continued review of the entire structure of SBA's disaster response.

Before beginning with the hearing, let me apologize to all of you for the inconvenience I have caused you on two occasions by postponing these hearings. It was done for what I like to think was a legitimate reason. I knew we were going to hold the hearings at some point, but in both instances the social security bill was pending in the Congress and I felt it was imperative that I be there to vote on it. So I hope none of you were seriously inconvenienced, and I do apologize to you for any inconveniences that any of you might have suffered.

I am very happy that we can be here today. This is probably the first hearing ever conducted in Clinton; maybe it won't be the last, but I hope the next one will be for something much more pleasant than the purposes for which we are here today.

Even though we are holding the hearings in Clinton, the disasters were widespread, many, many other counties, 47 to be precise, were declared disaster areas.

I want to thank everybody in advance. The Small Business Administration has been very cooperative in helping us arrange these hearings and get the proper people here to testify. We'll look forward to getting started right now with Kay Goss from Governor Clinton's office.

Kay, will you come around, please?

Why don't you all come up to the table together. I will give each of you an opportunity to present your full statements.

STATEMENT OF KAY GOSS, GOVERNOR CLINTON'S OFFICE, LITTLE ROCK, ARK.

Ms. Goss. The Governor asked me to express his appreciation to you for having called the hearings and to all the people here for sharing your experiences and to express his apologies for not being able to be here this afternoon.

My role this afternoon is briefly to describe the overview of the disasters that occurred in December throughout the State. On December 1, 1982, warm moist air from the Gulf of Mexico collided with a huge cold air mass over southwest Arkansas creating storm cells in several areas. Severe thunderstorms followed a typical path, from southwest to northeast, creating widespread destruction for 2 days. At least 23 tornadoes touched down in various parts of the State that day; up to 12 inches of rain fell in a 24-hour period in many parts of Arkansas creating widespread flooding. The 2-day storms claimed eight lives and resulted in $316 million in damages.

On December 3, Governor White signed an emergency proclamation declaring 10 counties in the State disaster areas. Three days later, as damage estimates were received, 27 more counties were added and this released $200,000 to be used for mitigation efforts.

On December 13, President Reagan signed a Federal disaster declaration releasing Federal funds for disaster aid.

Disaster assistance centers were opened in or near each county declared eligible for Federal funds, and the next 2 weeks saw Arkansans cleaning up; drying out; trying to return their lives to normal.

Christmas was just around the corner; December 23 and 24 saw another wave of severe thunderstorms, following a similar path of those on December 2 and 3. These fierce thunderstorms spawned at least 16 tornadoes this day and more extensive flooding. The city of Jacksonport, one of the hardest hit areas during the earlier storms, again had to be evacuated as the entire town was submerged, leaving 288 residents homeless for a second time.

Many of our fellow citizens spent Christman Day digging out of the debris and rubble that was once their home. Still more had to wait until floodwaters receded before they could even begin cleanup efforts.

Estimates of the damage this time neared $17 million. In all, 41 counties were declared disaster areas by the Governor with all those counties being included in the Federal disaster declaration for individual and/or public assistance; 38 counties were eligible for up to $900 in emergency agriculture relief funds through the emergency conservation program. Eleven lives, in total, were lost during December and were directly caused by the tornadoes and floodings. The total damage estimates are still exceeding $400 million. Many Arkansans were left homeless and jobless as a result of the severe storms and it should be remembered that on those same days that Arkansas was not alone. Louisiana experienced some severe flooding and Missouri was as hard hit as Arkansas with several days of excessive heavy rains, which resulted in flooding. That's an overview of the severe disasters that we suffered in December.

Senator **Bumpers**. Kay, thank you very much and express my thanks to Governor Clinton for allowing you to come up and make that presentation.

Carolyn Kegley from Senator's Pryor's office.

STATEMENT OF CAROLYN KEGLEY, SENATOR PRYOR'S OFFICE

Ms. **Kegley**. Senator Bumpers, we do want to thank you for inviting us to participate in this hearing. Senator Pryor sends his regrets that he could not be here personally but asked that I submit his statement for the record.

I want to thank my distinguished colleague, Senator Bumpers, for inviting me to today's Small Business Committee oversight hearing in Clinton. Unfortunately, because of previous commitments, I cannot be in attendance. However, with the committee's permission, I would like to submit the following statement for the record:

Senator Bumpers, let me begin by commending you and your staff for bringing this subject matter to the attention of the Congress. When disasters occur, we hear a great deal about them and their immediate after effects. We don't hear much about the long-term issues and the response effectiveness of Federal agencies. I commend you and the committee for exploring these aspects. Let me also suggest you include as a part of any official record, the descriptive front-page article from the March 1 Arkansas Gazette. This article dealt with some specific response problems the people in Clinton were experiencing.

In the past few years, the people in this area have been through a Titan II missile explosion and a devastating flood. They have witnessed disasters and disaster responses first hand. The comments you receive today will be most helpful in evaluating the strengths and weaknesses of our Federal disaster response system. These statements should also be representative of those from other counties in Arkansas which were declared disaster areas as a result of the December 1982 floods and storms.

Even though the flood waters left this area almost as quickly as they came, the disasters still remain. Businesses were destroyed; people were left homeless and jobless; lives and dreams were changed overnight; years of hard work were swept up in piles of wet rubbish stacked higher than rooftops.

Then the one-stop centers were established, people were left with the impression that Federal relief would be timely; that redtape would be cut, that interest rates would be fair; that compassion would prevail and that disaster loan applications would be processed expeditiously.

This intention was admirable, but apparently somewhere along the line, the system failed.

It is my hope that this hearing will point out any failures and lead to administrative and/or legislative remedies. Those people who sadly must experience disasters in the future should receive a more reliable and efficient response on the part of the Federal Government.

I pledge my support to work with you and the members of the Committee.

Thank you, Senator Bumpers.

Senator **Bumpers**. Thank you, Carolyn, and please thank Senator Pryor for me.

The record will show that Marcie Twyford is here on behalf of Congressman Bill Alexander, and I appreciate that.

Next, I want to call a panel. I would like to call Tom Baker, State representative; Pat Ellis, State representative; and Alan Gordon.

If you gentlemen will come up. Pat, why don't you go ahead and lead off.

Gentlemen, thank you all very much for coming today.

STATEMENT OF PATRICK ELLIS, STATE REPRESENTATIVE, CLINTON, ARK.

Mr. **Ellis**. Senator Bumpers, Small Business Administration officials, ladies and gentlemen. First, I would like to thank Senator

Bumpers for scheduling this meeting and the representatives of the Small Business Administration for making themselves available to hear the problems, the concerns, and the disappointments of myself and the victims of the December 1982 floods and tornadoes. As all of you are no doubt aware, some of the greatest damage created by the early December flooding and tornadoes occurred in this district creating extreme hardships for many of my constituents. Flooding virtually wiped out the Clinton business district, the stores and their contents destroyed or severely damages. Numerous other businesses in Van Buren and Stone Counties were destroyed or heavily damaged, wiping out lifetime savings or investments and irreplaceable records. The losses experienced from this disaster coupled with a high unemployment rate, high interest rate and the poor economy created a pretty dismal situation.

The situation might begin to look much better for businesses and homeowners with a prospect of emergency assistance or disaster aid in the form of low interest, long-term loans that might be available, hopefully within a reasonable timeframe.

Then came the disappointment. The desperately needed assistance comes in the form of—in most cases—a very short-term high interest loan with quite a time lag before the money was available. Over 100 days have passed since the natural disaster hit this area; only a few have received loans today. Of those who have received loans the help is questionable. I feel the interest rates are too high to be called emergency assistance or disaster aid in that some are 11 percent with a payback period of 3 years. Eleven percent interest and 3 year payback is hardly disaster aid and the time taken to process loans only compounds the problem.

I firmly believe that 5 percent loans with 10 to 20 year payback, depending on the size of the loan, would be more like aid or assistance instead of everyday business. I realize that the Small Business Administration is just one agency and that itself can only do so much but I can't help but feel that more can be done with the assistance of the various agencies also involved. If this requires change in laws, regulations, or procedure, I strongly encourage this to be done.

I thank you for your time and attention and ask that you do something to help these victims. They don't request help often and they wouldn't ask now unless they desparately needed it. Thank you.

Senator BUMPERS. Thank you, Pat.

Tom, I had a note here that you had a constituent with you.

Mr. BAKER. I brought my copilot, my mother is with me. She came with me.

Senator BUMPERS. That's a pretty good constituent.

Go ahead, Tom.

STATEMENT OF THOMAS G. BAKER, STATE REPRESENTATIVE, ALICIA, ARK.

Mr. BAKER. Thank you Senator. I would like to echo Representative Ellis 'gratitude that we feel toward you and your staff for coming and showing the interest in the problems that we do have in this area. I am not from this immediate area. My house district includes Lawrence County and a part of Graighead County, which is some 120 miles the way we have to drive to get here. But we also had very severe problems in our area similar to what the folks have had here in the Clinton area.

We are in an area along the Black River and the Spring River and the Eleven Point River and Lawrence County is the only county that has five rivers in it. And we had, of course, tremendous rains that were north of us causing a very rapid flooding on these rivers and the rivers on the south of us were not able to handle the added capacity that they were asked to handle, so consequently the water spread out and caused drastic flooding in our area.

We did not have as many businesses suffer damage as the folks here in Clinton did. Primarily the damage that we suffered was to homes—individual homes—the farmlands from pasturelands to crop lands. We had some farmers that lost grain that was stored in grain bins, and these are the primary areas where we had problems where folks needed help. I was very pleased that one of your staff people, from your office in Little Rock, came up and spent a day with me touring the area and visited with some of the people up there that were having problems. I don't think I have anything different to tell you other than what Representative Ellis did, as far as the problems that we encountered. The complaints that I heard primarily from people—first of all, when we got the Federal disaster, disaster costs were high. Folks had gone through some very trying times in very short order. Many folks had stood and watched their homes and every possession that they had be washed away down the river and, you know, that's hard and very stressful on people. When they heard the announcement that we had been declared a disaster area hopes were high that some immediate help was going to be on the way.

I talked to one fellow, just a week ago Saturday, who had applied for a loan to repair his home during the time that the disaster center was set up in Walnut Ridge, which was—I don't recall the date—about the middle of December. He had received his check the Friday before I talked to him on Saturday. When folks are in such immediate need, I think it's critical that we—when I say we I'm talking about the government in general—get that help to them as immediately as we can, because they are in a very stressful situation and need help immediately. I think this is one area that we drastically let—gave folks a large disappointment. The interest rates is another problem that we encountered. Now, Senator, I noticed in your statement you mentioned some guidelines that are set out about as far as being able to borrow money from other sources and what have you. I suppose that is fine, but we have a lot of folks that are very dissatisfied with that. We have a lot of people that have spent years and never asked for anything from government—when I say anything I mean other than the normal protections that we anticipate—never asked for any special help and they were very frustrated when they went to the regional office that was set up and applied for them. First of all, they were asked what their income was; if they had an income of more than $600 a month they were told they could not qualify for any type of grants or any immediate assistance or close assistance.

Senator **Bumpers**. When you say grant, do you mean grant or loan?

Mr. **Baker**. I was talking about grant.

Senator **Bumpers**. OK.

Mr. **Baker**. Some people were told if they had—now, this might not necessarily have been from SBA but we are talking about the overall center that was set up. They were funneling some people in different directions, of course, as they came in. I might add, I think that FEMA did an excellent job in setting the centers up and the way they handled that situation, but these people were disappointed in that respect, some of them were, because you and I know that a person doesn't have to be doing very much to have an income higher than that—to disqualify from that standpoint.

Then, if you could not borrow money anywhere else they could qualify for a loan at 6 percent. If they could borrow money from another lending institution, the money was going to cost them in the neighborhood of 13 percent, and I will relate to you what the people told me in that regard. They said it seems very strange to us that we have a regulation like that; they tell me it seems we are offering to loan money to poor risks. Now, if you can't borrow money somewhere else we will give you a lower interest rate. I think I can understand the reason behind why that is that way; it is to help people that can't help themselves as much. This is the point that I have trouble justifying to those individuals when they raised that point with me. I mentioned already the delay in receiving aid. When a person's home is washed away and they are trying to find a place to live and they're trying to repair maybe a home that's still there, I think that some 3 months is entirely too much—too long—to ask those people to wait for that help. In visiting with people here in Clinton today, I think they have that same problem.

In our immediate area the Red Cross was invaluable to us. They came in and they did a fantastic job getting food to people, getting clothing to people, getting bedding to people. We also had several church organizations in the area that were of tremendous help to us. It would have been very hard for some of the people that were affected to have really gone on if it had not been for those two groups.

That's basically all that I have to say. We felt that we had some people that wanted to come today to the hearing; they asked me to express basically these things to you in the hearing and also to express to you their thanks for looking into this matter and to have shown the concern that you have shown for them.

Senator **Bumpers**. Tom, thank you very much; that's a fine statement.

Alan?

STATEMENT OF ALAN GORDON

Mr. **Gordon**. Senator, I'll keep my remarks very brief. I would also like to express our thanks for your interest in being here today and all that you have done up till now in addition to what the rest of the Arkansas delegation has done up until now.

I completely agree with your remarks at the outset about the terms of these loans, which are certainly no gift. The terms of the loans are almost what the conventional loan today would bring to a private lender and I would applaud any effort that you can make to bring about more reasonable terms on what's supposed to be a disaster relief. Primarily what I have been concerned about, people have expressed to me, is the redtape involved in processing these loans. I simply do not understand why it takes 30 days or less to process a comparable loan with a private lender on the same security interest and same type of security that SBA is taking on these loans and yet it takes 3 months or more and these people—still most of them—do not have their loans through and they are still having papers shoved at them.

The floods here in Clinton particularly could not—the downtown area being flooded—have hit at a worse time of year. It was just prior to Christmas; the stores were heavily stocked with inventory.

Right now you have stores in downtown Clinton that still do not have adequate inventory because their loans have not gone through; they have not been able to stock their stores. Most people, and I think I'd be safe in saying this; that 95 percent of the people in this area have never asked their Government for anything. They've paid their taxes and they've never been on any type of Government assistance, they've never asked for anything. This is the first time they've ever come to their Government.

The question they have asked me, and I can't answer, is how in this, their time of need, their Government can more or less turn their back on them and at the same time ship millions of dollars—I know it's two different issues—but ship millions of dollars to El Salvador or some foreign country and yet give them problems about something that's not even a gift. It's no form of aid because it's a loan that they're going to have to pay back at almost conventional terms, in fact in shorter terms at almost conventional interest rates. It's working a real hardship on the people in this area and it's simply not right and anything that Congress can do to change the terms and the redtape involved particularly—that's what's working the biggest hardship right now. The loans just have not gone through very quickly on a timely basis.

We appreciate your interest in being here. Thank you.

Senator **Bumpers**. Do you represent Rosebud?

Mr. **Gordon**. No; I don't. I don't have any of Faulkner County. They have the same problem over there.

Senator **Bumpers**. Is there anybody here from Rosebud?

That's too bad. I stopped there the other day when I came to Clinton. The little community was just wiped out. I've always thought it was really a lovely little community. I've been through there dozens of times.

Alan, that's a fine statement. Thank you very much for your concern.

Tom, Pat, thank all of you for being with us.

Our second panel will consist of Robert Shannon of Shannon Supply and Shannon Development; Miss Jean Eoff, Eoff Furniture Co.; Roger Rorie, Clinton Motor Co.; Mr. and Mrs. Gary Geracci of Little Rock; and Kevin King, attorney from Harding.

If all of you will please come and take a seat, we'll do what we did with the last panel. As each of you testifies, please identify yourselves for the record.

Jean, do you want to lead off?

This is Jean Eoff of the Eoff Furniture Co.

STATEMENT OF JEAN EOFF, EOFF FURNITURE, CO. INC., CLINTON, ARK.

Ms. **Eoff**. I'm Jean Eoff of the Eoff Furniture Co., Inc., in downtown Clinton.

After the December 3 flood our store was entirely covered with water, damaging all of our merchandise. But a shining light came through, we had—the FEMA people came and we talked to the SBA officials and obtained loan applications and all information needed to prepare a loan, hoping to get an SBA low-interest loan on a long-term basis. My accountant filled the papers out and presented them to the State disaster office in Little Rock 2 days later and asked if any other information was needed; there wasn't.

It was sent on to Grand Prairie, Tex., for approval. One week later another State disaster team came into Clinton and informed us that we had been approved for a loan and all the money that we had asked for except $1,200, which was all right. We were then told to provide title insurance, abstract and collateral to back up this money that we were borrowing. Since the Dallas Furniture Market was the next week we gathered up our material, got everything needed and visited the Grand Prairie office and asked that they examine our papers, close out our loan, and get us money as quickly as possible. Our big store floor was empty and we needed to buy merchandise. They did this within less than an hour, told us nothing else was needed; they would send the loan on to Denver to have a check drawn.

We assumed that in 10 days to 2 weeks we would have our money so we bought furniture and more furniture and assured our suppliers, who had all seen our store on TV, that we would be able to pay for our merchandise as soon as it arrived. The merchandise came in a few days along with the bills. No money came from SBA; we lost our discounts but the Clinton State Bank loaned us money just to keep floating. I had eight employees, two rug contractors, and a part-time accountant along with all other utilities that had to be paid. We waited and waited and waited and after the 10th of February we were desperate and so were our suppliers for their money. We began to ask people to help us. We called our friends in Washington and asked what was holding up our money. Finally, on February 17 an appraiser came from SBA and wanted to see our invoices and checks. No problem, he was very nice. He listed them all but we had already sent a list in and so that's just fine. When I get back to Little Rock I send this into Grand Prairie and they will release your check which had been waiting there since January 27. Before he got out of the city limits my son went to the post office and our check was there. I hadn't understood——

Senator **Bumpers**. That was fast service, wasn't it.

Ms. **Eoff**. Well, that's just fine. He was real nice. While he was there we asked him to examine our other invoices that were coming in and checks that we were to pay for so he wouldn't have to make another trip back; he did that. That was 42 percent of our loss. We waited and waited and waited again. We bought more merchandise and the check didn't come.

On February 17—no, on March 16 another appraiser came and he wanted to see the same thing the other appraiser had looked for. He was very nice; we gave him the checks that we had paid for our merchandise, showed him the merchandise and he said in just a few days the balance of your loan will come through. Well, the next day was March 24 and a portion of our other check came through. That is 68 percent of the loan that we were supposed to get. That was the day we were supposed to have our hearing, the check came that morning. The people from SBA have been very nice. They've answered any questions, encouraged us to call in any minute, giving us telephone numbers in their office in Grand Prairie. We have had real good satisfaction out of them. The things that we were to prepare and furnish wasn't anything new to me. I've borrowed money from Howard Johnson's bank before and I know you have to have your deeds, title insurance, they required us to buy flood insurance which was like closing the barn gate after the horse had got out, but we did all of that and still the time of 77 days from the day of the flood until I got the last check, which is 68 percent of my loan that was promised to me. But, I'm grateful for all this, but I would like to say this. After being in business for 42 years in downtown Clinton, hired many people to work for us, paying many, many government taxes, this is the first time that we have ever needed help from the government, but we do now, and an 8 percent loan is no big deal because we have spent many dollars, many telephone calls, and many hours away from our business in order to obtain the necessary things and get this loan rolling. I could borrow the same amount of money from Howard Johnson in 30 minutes and furnished him the same collateral and the same papers and that is my complaint on SBA.

I feel like we should have our interest dropped to 5 percent over long term and I figure that the entire town needs what I did. We all lost all we had and for me to build my business back and other businesses not to come back, it would do no good. We had a close-knit community and everybody needs help.

We thank you, Senator, for coming and bringing your committee and hope that something will turn out good.

STATEMENT OF ROBERT SHANNON, SHANNON SUPPLY AND SHANNON DEVELOPMENT, CLINTON, ARK.

Mr. **Shannon**. My name is Robert Shannon with the Shannon Supply Company in Clinton, Ark. I'm also president of the Clinton Chamber of Commerce.

I would like to say a couple of words about the general feeling in the thing that has happened to the town of Clinton and, to be more specific, the things that have happened to Shannon Supply & Shannon Development Co. The town of Clinton, I believe, as most everyone can tell, is a small rural town in a sparsely populated county in the State of Arkansas. We have a high employment rate, we have low income, and we are not a very economically progressive area.

As a result, we had no resources to depend on when we had the flood. With the exception of only one business in town, all of our businesses are family-owned businesses. We have one business that would be called a chain store, you might find, that's Bill's Dollar store. The rest of us have to depend on our own resources to do what we need to get done. We have no home office that we can call on to give us assistance in any form or fashion.

I think that one of the big things that we've had up here is a problem—I must say that the SBA people have been very friendly, very cordial—but they've been very confusing to us.

The FEMA group, when it came up and talked to us, they told me that when we asked for our applications and we went through the organization that they had all the different departments there and all the representatives there from all the different government agencies. They said if we would fill out our paperwork and get all our paperwork in, within a week to 10 days we would be getting a check. We were told that at the FEMA meeting; we were told that later on. I don't know of anyone that's gotten a check within a week to 10 days. We have not had any loan—in fact, we don't have any money from the Federal Government.

In our town we are aware of what it takes to make a loan; we know about liens and we know about deeds and we know about abstracts and mortgages and what it takes to secure a loan. We do that every day but we also depend on a person's word that if a person tells you that they will do something then you can count that that person will do what he says he will do. I think that most of us harbored too many great expectations of what we would expect—of what we were told by more or less the PR people from the Federal Government. Appraisers came in and said that you had this kind of problem; we'll get this taken care of; we won't have any problem here. But we were not aware of all the paperwork that's involved in processing SBA loans. We've never had to go through this. I don't know how many people in the town of Clinton that's ever applied for an SBA loan. We've never applied for any type of government assistance in 21 years of business and, like Jean, we've paid many many dollars in taxes, whether it's State taxes or Federal taxes where you employ a number of people. I think that we were just given false expectations of what we could expect from the Federal Government in the way of help. That's one of my big complaints—that if FEMA had came in, they said fill out this paperwork, we'll need to get back in touch with you probably eight or ten times, you might get a loan in 6 months, then we wouldn't have expected much. But when they gave you the paperwork and said fill this out; we'll get back in touch with you as soon as you get it out; in a week or 10 days you'll have some money, you start counting on that. As a result you start building your business toward that. Like I said, all these are family-owned businesses so they have no home office that can help them through this trying period of time. All you've got is your own to depend on.

For us, we have actually two corporations. We have Shannon Supply which is in the retail lumber business and hardware store. We have Shannon Development which owns the buildings and all the property that constitutes Shannon Supply Company. We applied for three different Government loans. One was for loss of business and income during the period of time that we had the flood, the disaster, that was turned down. We talked to them on the telephone, we asked for $50,000 for loss of business in January—in December and January. They wanted to know when we expected to have our doors open and we told them that we were already open for business. They said since you're still in business then you don't qualify for this loan. I think that, you know, that if you're still in business you still have an economic hardship and there's no way that no one could say—we had 4½ feet of water in our store—that we're going to be able to conduct business in the same fashion that we did the week before we had 4½ feet of water in the store. We're going to have an economic loss no matter what. If this loan is not available to people for use, then they ought to just completely eliminate it; they shouldn't even have it on the books, but if it's there I think that we need to have some way of looking at these things in justifying this loan. We have had a loss. Last year in the first 3 months of the year we had made a profit in our business even though the building material business was down 70 percent, Shannon Supply had still shown a profit. The first 3 months of this year we've lost over $40,000. Now, I don't see how we—why that can't be justified. But we're still in business. Therefore, we didn't qualify for that loan.

Senator **Bumpers**. Have you reapplied for that loan?

Mr. **Shannon**. No, sir, we have not.

The second loan we applied for was with Shannon Development for the repairs of the buildings. We asked for—I had approved $43,000 for that loan. This loan was at 11.5 percent interest and a 3-year pay back. The problem that we had with that is that in 3 years Shannon Development only generates $36,000 worth of income. We pointed this out to the loan officer that if you take a principal of $43,000 and you add an interest to that, which we don't know what the interest is, we know it's 11.5 percent, but the Government didn't give us a Truth in Lending Statement like we have to provide and the bank has to provide, so we don't have any idea what the total amount of our loan would be on a payback. I'm sure it will be more than $43,000 since that's the principal. We pointed out the fact that we only had a total of $36,000 income in a 3-year period of time; how could we pay off a $43,000 loan plus interest. It's very simple, all we do is raise the rent to Shannon Supply who's applying for a loan because we've been flooded out and I guess it makes sense, you know, but we're applying for a loan for Shannon Supply and we have to raise the rent, which is based on a lower profit, increases our overhead so that would make that loan harder to pay off.

On the loan for Shannon Supply, they were approved for a 15-year loan. Our business is set up—at the present time we have two notes that we are paying off. These constitute a major income to three former stockholders and the Federal Government says that we could not pay them their notepayment until the SBA note was paid off. In essence it meant that we couldn't make any note payments to these people for 15 years. We had to sign a statement saying we would not pay them anything for 15 years on the principal of their note and they would not accept any payment on the principal of the note for 15 years.

I think that this constitutes hardship on these people. We explained that and said that we could go along with all the other government regulations and all the requests except for this one request. At that time we asked could they finance the whole total package. Would they loan us enough money to pay off these two notes and finance the whole thing. As a result, we haven't heard anything on that yet.

Senator BUMPERS. What did they say the rationale was for not permitting you to pay a legal obligation that you had?

Mr. SHANNON. The problem that we got into is that we talked with a lawyer and he says paragraph 8 is very simple, that it says that we can pay off the notes to these people; we can continue to pay what we're paying. We cannot pay any more. The loan officer says the lawyer doesn't know what he's talking about; that's he wrong and that he has no right to tell us that and just because he's a lawyer he doesn't know what he's talking about. These two people were talking to us on the telephone at the same time. The loan——

Senator BUMPERS. You're talking about an SBA lawyer or an SBA loan officer?

Mr. SHANNON. Yes, sir, we were talking to them at the same time, in the same office, on the same conversation.

Senator BUMPERS. It made you feel good, didn't it?

Mr. SHANNON. Well, it's typical of the type of thing that we've been getting. They're both very cordial and very polite but they keep giving us contradictory answers to the questions that we ask. We would like to have a loan. We feel like we need it and know that we need it. I keep asking myself which is better for the country, to have a tax-paying business or a business that's losing money. Which is better, to have a very viable community that's growing and prospering and employing people and paying taxes or one that's not, and I keep coming up with the answer that the growth community is the best for the government, and why we can't work something like that I don't understand. Like the gentleman from eastern Arkansas that got his check the other day, he was saying that it shouldn't take 3 months, I agree with him but he should consider himself very lucky that he has received some money. The bulk of the people in Clinton, that I'm familiar with, have not received any money. I don't know how the people in Jacksonport and other places like that have been faring with them. We have not been very satisfied and I think those three instances on those three loans; one, that we're still in business so we can't qualify for a loan; two, that we'll just raise the rent to make the payment on it; and three, that you can't pay these people the principal on the legal obligation that you owe, I don't think that those three are very rational reasons for turning us down for a loan.

I want to thank you for coming here.

Senator BUMPERS. Thank you, Robert. That's a good statement. How about Roger Rorie next? Roger.

STATEMENT OF ROGER RORIE, CLINTON MOTOR CO., CLINTON, ARK.

Mr. **Rorie**. First I would like to say the same that everyone else has; thank you, Senator Bumpers, for coming to Clinton, Ark.

I'm Roger Rorie, secretary and manager of Clinton Motor Co., Inc. at 400 Long Street in Clinton. I'm a franchised Ford dealer. I received a letter last week saying that they could not process my loan until they received my closing papers. Well, at the finish of this meeting today the SBA will be in full understanding what I intend to do with my closing papers and that is to burn them.

At the initial meeting, and this is my recommendation to the SBA, from when they set their office up, it wasn't really directly told to us but it was insinuated to myself that we would have 8 percent money with up to 30 years to pay it back, which I didn't anticipate that that would be true, but I did go ahead and process all the papers, paid the CPA's for filling out the papers, even had a lawyer to inspect the papers and review them; then I received my package, my loan was approved. It was approved for 11.5 percent money, 3 years to pay it back; balloon payment to $5,700 and $36-a-month payment. You know, a town of 1,200 population—maybe there's Ford dealers in the United States that's smart enough to pay a payment like that but I'm not.

Senator **Bumpers**. You have a lot of people in Van Buren County that don't make that much a year.

Mr. **Rorie**. True. So at the first meeting I went to at FEMA, I took my financial statement, I took my tax return and had they—if this was what they had to offer the people of Clinton, Ark., we should have been notified right there. That's my opinion. Then, you know, I would have been upset for 5 minutes and I'd have come back to Clinton Motor Co. and told my employers, you know, we're going to have to make it on our own, which is basically what I told them anyway. I was led to believe that we would have help; there has been no help for Clinton Motor Co. I have signed no closing papers and will not sign any closing papers. The guideline—we have an existing loan, I have the same standby agreement that Robert was talking about a minute ago. Another stipulation that is in here is that I would have an audited financial statement annually, which in a car dealership where you have a parts inventory and all, in order to do a financial statement will add an increase of approximately $6,000 per year added expense that I do not have at the present time and so—Clinton Motor Co. at the present time employs 17 people. In the last 2 years Clinton Motor Co. has generated in excess of $150,00 taxes paid to the Government through employees withholding and through employee taxes and through corporate taxes. We were hurting; my losses exceeded $200,000. Clinton Motor Co. has been a good business and Clinton Motor Co. will exist. The only way that we are going to exist is the dedicated employees that I have. Immediately after the flood the employees agreed, you know, skip every other paycheck for a short time, you know, reduce the paychecks. Not all of them but different ones came to me and said we'll help any way we can. We came in there at daylight Saturday morning after the flood waters receded and had a fire truck from a local community and started washing the place down. We opened up for business the following Tuesday after the flood; at noon on Tuesday. Without the efforts of the employees Clinton Motor Co. would be bankrupt today and it certainly hasn't been with the help of the SBA.

At this point that concludes my statement and I would like to ask one of my employees to bring my container and I will burn my closing papers, because that's the way I feel about it.

Senator **Bumpers**. Thank you, Roger. Oh, you want to burn them here in front of God and everybody?

Mr. **Rorie**. I sure do.

Senator **Bumpers**. Take this water pitcher over there in case it gets out of control. We might have another disaster.

Mr. **Rorie**. I assure you that with the help that's been offered from SBA I would have a disaster.

Senator **Bumpers**. Well, I had no idea we were going to have this much excitment here today.

Mr. **Rorie**. Thank you, Senator Bumpers.

Senator **Bumpers**. Roger, if you will just have a seat over here. Mr. and Mrs. Geracci.

STATEMENT OF GARY AND VIRGINIA GERACCI, ALEXANDER, ARK.

Mr. **Geracci**. My name is Gary Geracci, my wife's name is Virginia and we're from Alexander, Ark.

On December 2, at 3:23 p.m. our home was destroyed by a tornado and our business which had been opened 2 weeks. Subsequently, about 3 days after the disaster happened and we were in temporary housing at my expense in a motel, we were told a temporary home would be brought in by the U.S. Government. Arrangements would be made later when things had quieted down and we could go ahead and get loans and whatever we needed to get our feet back on the ground.

We were in the motel almost 15 days. I wiped out my savings account and I lost in that 15 days approximately $35,000 worth of stock, all my personal possessions. Between the looters and the storm we were really wiped out.

The disaster center helped us; the Red Cross, God bless them, I'm glad they were there. The United Methodist Church in Benton, Ark., if they hadn't come to our aid we wouldn't be here today. We've been in temporary housing, thanks to FEMA and the State. I've got a envelope full of papers here from an approved SBA loan for our home. I had to borrow an equal amount in order to buy a used mobile home that's almost 15 years old. No provision has been made to attach the utilities up, to repair the underground piping on our lot. The Red Cross had to step in and stop repossession procedures on our land so we could have our land back. My business is gone. I've lost approximately $105,000 worth of contracts. I do legal models for the court system, for the attorneys in Little Rock, for the advertising companies in Texas, for the model car and airplane companies, for the large manufacturing companies in this country, and, of course, the model steamboat that's on display at the Excelsior Hotel. I do insurance jobs. I don't have anyplace to work. Through some friends I have been given some tools and again, through some churches I have gotten some new tools, but this will never begin to replace what was lost.

I've had people come to me and say, well, if you'll fill these papers out within a week or so we'll get back with you. All right, this loan was on a reapplication but it was 2½ months before I got the word they were going to turn me down. Another week went by and I started contacting my government officials—your office, Governor Clinton's office, Senator Pryor's office, and I started yelling because I got mad. Through the efforts of all the offices named, I got a call from a man at the SBA who said we're going to reevaluate your loan if you can get us your tax documents. I said I can't give them to you. I sent the papers they requested to the Disaster Office, to the Internal Revenue Service, and they're supposed to send them. I haven't heard a word. We can't do anything until we get those. I've got a bookkeeper to pay for filing all these back taxes just so I would have some tax papers to send them. On the basis of this they approved the loan. OK, forget the check from the SBA, I have now hired a lawyer to make sense out of these papers because I won't sign anything I don't understand and then they'll send me a check for one-third of the amount they loaned me. When I show that I've used it for that purpose they'll send me the next third, and when I've used that they'll send me the next third. This is not the way I do business. When I borrow money from a bank they give me a check and say all right, you borrowed it for that purpose, use it for that purpose. We've got your collateral. So ahead and do what you've got to do. With this situation the way it is now, I'm going to have to borrow approximately $2,000 from a bank in Little Rock just so I can get back in my home that's sitting on my lot with no utilities and in temporary housing. The rent doubles the first of the month and I don't have the money to pay it.

I've been told by officials on the telephone, the SBA people that were here, they called me up at a neighbor's house, down where I live just outside of Alexander, "Mr. Geracci, we really want to help you get your loan. This is what we're going to do for you; we're going to give you $5,200 for your house." You can't buy a mobile home for $5,200 anywhere, even a used one that's in any kind of condition that the Red Cross would let you move in it. Then he said we might give you $9,200 for your personal possessions, if you qualify for that much, and $1,800 to restore your land. I had $2,000 worth of chain link fence on the land, not counting my driveway, my porches, my flower gardens, and my shop. OK. And he said, but off the record if you really want to get something out of the Federal Government the best way to do it is you learn how to lie, cheat, and steal, and when you can do that you will get something, but if you're not satisfied with what we can give you, I'm sorry. That man, I understand, no longer works for the SBA.

Sir?

Senator **Bumpers**. I was just going to ask you if you could identify him. If he's not there anymore I guess it doesn't matter.

Mr. **Geracci**. I couldn't. The gentleman in Texas asked me who he was and I said I have talked to so many people it's a wonder I even remember my own name. But the whole idea—the whole principal of it that grates me is this: As the other gentleman said, and you yourself said, none of us asked for this to happen. I adopted this State in 1968 because I liked the people, I liked the way the State does business. If you give your word people know you're going to keep it because that's the way they were raised and that's the way I was raised and I don't like a Federal agency telling me to learn how to lie, cheat, and steal to get ahead. I've never had to do it and I'm not going to start now. I'm going to have to fill out these papers because I've got no choice. There was a statement in here that a banker looked at in Little Rock and he said I don't know how I can give you the money because they want something that you can't give them. You cannot give them a mortgage on the land that you've already got a mortgage on and so I don't know what to do.

Senator BUMPERS. Who do you owe for the land now?

Mr. GERACCI. I owe Cramer Enterprises in Little Rock, Ark. almost $10,000 for my land.

Senator BUMPERS. How much land is that?

Mr. GERACCI. It's an acre and a sixth.

Senator BUMPERS. Have you gotten any money from SBA yet?

Mr. GERACCI. No, not a dime.

Senator BUMPERS. Not a dime?

Mr. GERACCI. Not a dime. I got a $5,000 State grant. I'm going to have to pay that back out of this money when I get it. This took so long getting here I qualified for the State grant.

Senator BUMPERS. When you get your loan is it your intention to pay off the existing mortgage on your land?

Mr. GERACCI. I can.

Mrs. GERACCI. There isn't enough money.

Senator BUMPERS. They aren't going to give you enough to do that?

Mrs. GERACCI. There's only $15,900.

Mr. GERACCI. May I read something to you, Mr. Bumpers?

Senator BUMPERS. Yes.

Mr. GERACCI. I have here my SBA documents which I'm sure quite a few people in this room are familiar with. You can see it's quite a pile of papers.

Mrs. GERACCI. This is just a small fraction of what we've filled out so far.

Mr. GERACCI. OK. Here's the way the SBA broke it down: Approximately $1,800 to repair real estate at 39 Lindsey Drive, Alexander, Ark.; approximately $10,000 to repair or replace damaged personal property; approximately $4,100 to repair or replace the damaged mobile home.

Senator, in all fairness, I've got to ask you today if you know anywhere in the State of Arkansas where I can get a decent mobile home for $4,100; I'd like to see it. I explained this to these people. I said——

Senator BUMPERS. Do you know how they arrived at that figure?

Mr. GERACCI. Yes, sir, I do. The man that spoke to me on the phone that made the statement about lying, cheating, and stealing; he said Mr. Geracci, what we have to do is go back to square one. I said, what do you mean square one? He said when you bought your home you bought it used. I said, yes and I put $7,000 worth of remodeling in that home, too, and brought it up to exceed the Federal energy standards for a mobile home that size. He said all we can allow you is what the home sold for originally back in 1972.

Senator BUMPERS. Is that what you paid for it, $4,100, when you bought it in 1972?

Mr. GERACCI. We paid $2,500 for it in 1980, and then, just to live in it and because the situation then was a little bit tight, you know, a lot of layoffs and everything, I just happened to be one of those guys that got caught in the middle, we had to go ahead and put some money into it to make it livable and it added up to $7,644 and some odd cents.

Senator BUMPERS. In addition to what you paid for it?

Mr. GERACCI. In addition to that and because of numerous layoffs and everything, of course, I hadn't been on the job long enough—the engineering firm I worked for—to get a loan to buy a new house. Right now I consider myself very lucky, for my friends, for Clifton Mobile Homes in Conway, Ark. because they were willing to extend me the necessary credit to enable me to get another home, over and above what they're allowing me here.

Senator BUMPERS. Let me ask you this. If you don't know the answer, I'm going to ask SBA some of these questions when they testify. Would they permit you to buy a $10,000 or $20,000 mobile home and apply the $4,100 they are loaning you on it?

Mr. GERACCI. Yes.

Senator BUMPERS. They would?

Mr. GERACCI. I believe so. The thing that irked me about the whole affair in the very beginning was the very first investigator I spoke to, who came out and took a look at the property and walked around and looked through the records and everything, I told him look, I know where there's a bank repo today that's furnished with the same kind of furniture we owned that if you can assure me these papers will get processed soon, I can get that home and be back out here in less than a month. We can't do that. I said, why not, the whole home; furniture and all only cost $10,000, that way you won't have to give me any money for furniture, it would be in the house.

I just don't understand. What's frustrating to us is the fact that commonsense to us has not been applied here. Our intelligence has been greatly insulted. I appreciate the gentleman from Grand Prairie, that I'm working with now, reevaluating the thing and trying to help me but I'm still not back in my home. My 10-year-old son is still not back with his parents. He's still staying with friends and I want to get my family back together and I want to let people know that I still have a place, if I have to work in my kitchen, to reestablish my business. I'm going to do it, SBA or not, and it's a shame it had to come to this and that you had to take your valuable time to come to these hearings because a Government agency was established for the purpose in mind that the SBA was, they shouldn't be allowed to put people through this. Their own brochure says $55,000 for a home. They don't say a thing in there about mobile homes. I have been treated every time I've gone in for a home improvement loan, on my mobile home, like a second-class citizen. I live in a mobile home by choice, not because I have to, and I don't appreciate being treated like a second-class citizen, either by the

Government or by lending institutions and this was the straw that broke my back, so to speak.

Senator **Bumpers**. Mr. Geracci, you've probably come further than anybody here today to testify and I personally appreciate it very much. I appreciate your testimony. If you would, just stay around a minute and we'll ask a few other persons——

Mr. **Geracci**. I want to thank you for having me here today.

Mrs. **Geracci**. I want to thank you also. Senator Bumpers, I would like to say one thing; as of the time we got through paying for an attorney to do the papers, the bank loan, the telephone calls—we've got $216 worth of telephone calls that we've had to make—we're going to have at least the equivalent amount of the loan to pay out besides the loan.

Senator **Bumpers**. Let me ask all of you this: Does the Grand Prairie office have an 800 toll free number?

Mrs. **Geracci**. No.

Senator **Bumpers**. You have to pay for it?

Mrs. **Geracci**. We had to pay for every single call we make to them. Besides that, when they made our loan they took no consideration in the damage that was done to the land. I spent 3 years of my life working in that yard trying to make it livable because when we bought it it was nothing but a mudhole. It's now a mudhole. All the grass, all the work, all the trees we planted, everything we did to that lot is gone.

Senator **Bumpers**. Thank you, very much.

Our next witness is Kevin King. Kevin is an attorney from Harding.

STATEMENT OF KEVIN KING, ATTORNEY, HARDY, ARK.

Mr. **King**. Senator, I appreciate the opportunity to come today. My name's Kevin King and I'm from Harding. I'm an attorney there and I'm also president of the Harding area chamber of commerce. The reason that I would like to have an opportunity today to bring up some matters is the problems that we've had in our area.

Just from my own personal statistics I've estimated that one out of every three businesses in our area went out of business because of the tornado and the flood. Of the people that were eligible for SBA loans only 10 percent applied. Of the 10 percent approximately one-half of those individuals had to be pushed into the necessity of thinking that they could get an SBA loan, otherwise they would have continued to seek personal financing in our area, which our banks have been very, very lenient and very helpful to the people in our area concerning the disaster. But I, as an attorney and also as president of the chamber of commerce, felt like that I'd had success with SBA before, not on disaster loans but on regular business loans. I felt like the people in our area could go to the SBA and ask them for something. Most of them have not even gotten to the point that these individuals in the other areas have. To my knowledge only two individuals have received notification that they were accepted for loans. Both of those were for housing loans. None of them were for business loans.

To my knowledge no one has receive a check in our area. Most of the individuals have turned their applications in with a deadline of February 11. From that time they've talked to SBA approximately twice, some of them only once; some of them had an opportunity to talk to the estimator twice.

The first team of estimators came into our area 1 day after the applications were to be turned in. They were to be sent into Grand Prairie so I don't see how it would be possible that all of the applications could be in Grand Prairie and they could expect to send an estimator into Sharp County 1 day after the deadline, but that was the first group of individuals that came through to estimate the losses in our area, 1 day after the deadline.

There were a lot of individuals that, because of hardships, could not get the information together until sometime around the first of February. Their applications were not in the first ones that were brought into our area. At the time individuals were told that the SBA would be back into our area in approximately 2 weeks; in most instances they've never been back to see the businessmen at all. They're supposed to be there, all the forms required, if they asked that a witness be there if an estimator come, or to ask that the person applying for the loan be there, but the individuals that I have helped have only seen an SBA approximately twice. One individual has seen them just once.

The problems that I have, I applied for three loans for individuals ranging from $60,000 to $100,000. All of these were business loans; all of these people hired from anywhere from 3 individuals up to approximately 25 individuals. These businesses, 1 of them is not in business and the other 1 is in parttime and the other 1 is operating approximately 50 percent of efficiency now on their own cash.

The problems that we ran into, we applied for loans; we sent in the information. Approximately 2 weeks later we received back a request for additional information. Fifty percent of the items which they asked for had been sent in the first time. The other additional information, the other 50 percent that they requested was information that we could not provide them. They were asking us to go back and restructure an entire business year without any records. I don't know whether the Senator is familiar with our problem there in the flooding but most of the individuals had all of their business records within their business at the time of the flood. One particular business, the building was lifted up some 5 to 10 feet off the foundation: The majority of the items that were inside were floated out and when the water receded, it went back down on the foundation. How can they expect individuals to reconstruct records without any source or any anticipation of getting this information together? We had to guess. When we sent in the information each application contained a letter directly from me stating that these were estimates, that all of the records had been lost. Many times we had to take the tax records that were wet; we had to put them under an iron; we pressed them; we ran them back through the copy machine hoping they would come out. Those are the types of records that we were able to send them.

We could not send them anything as far as a profit and loss statement, all of it was an estimate. When I called and talked to the SBA I asked the man will you find out what additional information we need. The man failed to call back. He never called back and returned my call. All the things we sent in we had to guess what they wanted because they would not provide us with specific details or specific answers to our questions. When we asked them what information we needed if we didn't have the original records, they said, "well, really, I don't know." They acted like they had never been presented with this problem before and I'm sure in other floods and other tornadoes that individuals have had this same problem.

I think this could be remedied by putting something in the application or the original information stating that if you cannot provide the records that you need to provide an estimate with some type of list of sources so that you can at least provide them with something where they can anticipate a cash flow.

The second thing—the third thing that I ran into was two of the individuals I worked with received denials. One of them was a denial saying that he did not have a cash flow to justify a loan. This man had a $150,000 business that went down the drain with the flood. In one year alone he had applied more than $30,000 plus his interest payment on the principal which he owed at the bank there in our area. I cannot say how they can say that an individual that can pay that much money per year, plus interest, does not have cash flow. Now, every dime that he has is invested in that business, everything. How they can expect him to go out and borrow more money from the same bank, I don't know.

All the times that we've discussed this information with them concerning interest rates we were never provided an estimate of what the interest rate would be, or the term the loans would be for, they would give us nothing. All of the information that we have was hearsay. Nothing was provided by mouth from the SBA. We had to go out and seek our own information. We have nothing to verify that these individuals are going to receive any other consideration.

When they denied—it would appear to me that when they denied a man for a problem of cash flow that they could suggest another alternative, a lesser loan. If a man is asking for $150,000 and he can qualify for a $25,000, a $50,000 or a $75,000 loan, why don't they tell him in that application or in the denial to either reapply for that or that he needs to send in additional information to apply for a lesser loan. They've done nothing like this. At least at a bank when you come and talk to the man and he turns you down, you face him, you tell him your situation. If he says no, then he's going to give you a basis for turning you down. In our area people just have never reached that point, yet. We're still looking for the SBA to come back and help us. All this has been done in about two visits. Every time we call Grand Prairie and ask for additional information, we're not getting it, and all we're asking is that the individuals come in the area and tell us right off, because, as far as I can see right now, we're as far behind in the SBA process as anyone that's come today.

We sent in our applications over a month and a half ago. All we're asking for is to come in, tell the people whether they're accepted, whether they're denied for a loan, what type of loans will be available, what interest rate, what terms would be available. That's all we're asking for. We're not asking for anything that I feel like would be unreasonable. These people have held their lives on hold since December of last year. As these other individuals, they've sat there and waited. All we're asking for is for them to come in and tell us what we can do. We're not asking for anything, that I feel like, that is unreasonable, As everyone stated, we've all taken chances, we never asked for very much, and in our area very few people have ever received SBA loans before, so what we're asking for is something that's not unusual. At least we're due the courtesy of someone returning your calls. Someone coming by and making an estimate of the losses, either telling you that you can or you cannot get a loan and on what basis. That's all we're asking. If we're not going to get anything, we just ask that we be told so.

Thank you, Senator, for the opportunity.

Senator BUMPERS. Kevin, did you tell me you had handled six of these yourself?

Mr. KING. No, three, three of them ranging from $60,000 to $150,000.

Senator BUMPERS. Have you gotten any results on any one of the three?

Mr. KING. No, sir, none at all.

Senator BUMPERS. To your personal knowledge, how many applications do you know that have been made from Harding?

Mr. KING. The area alone, I would estimate there would be less than 12 applications.

Senator BUMPERS. Do you know anybody who has received a loan?

Mr. KING. No, sir.

Senator BUMPERS. Do you know for a fact whether anybody has gotten a loan?

Mr. KING. Two individuals on housing that I am familiar with.

Senator BUMPERS. That did get money?

Mr. KING. They did get loans. They have not received a check. In fact, in both instances they only received the letter this week or last.

Senator BUMPERS. Were those the lower-interest rate loans or were they higher?

Mr. KING. They were the lower-interest rates.

Senator BUMPERS. What do you normally charge the client to fill out one of those applications?

Mr. KING. Well, it's almost embarrassing to the—to be honest with you, I charge no one more than $150 for all the time that I spend. The rest of the time that I spend on the matters have been on my own time because I felt like that these individuals deserve something and I just charge them basically for the time that it actually took me to fill in the lines, not the time that it took me to compile the information, because in all the instances these individuals brought in boxes with items that they had, soggy papers and things that we tried to go through. We reconstructed inventories of a gasoline company, a motel, a clothing store, and a restaurant. All these businesses had large inventories that had to be controlled.

Senator BUMPERS. Is it a difficult or complicated form to fill out?

Mr. **King**. No. In fact, it's much simpler than the original SBA form for a regular loan. I thought it was very simple.

Senator **Bumpers**. Have you handled some of those regular SBA loans?

Mr. **King**. Yes, sir.

Senator **Bumpers**. And this one was simpler?

Mr. **King**. Yes, sir, I thought it was.

Senator **Bumpers**. It requires a personal financial statement to go with it?

Mr. **King**. The problem that I felt like—well, many times they intertwined the profit and loss statment, the balance sheet and the financial statement. Many times they are asking for the same thing but they put three different labels on it. I felt like it could be simplified by having someone that's very familiar with accounting procedures devise a new financial statement and forget about some of these profit and loss statements and items where you're just copying the same information. Many times I fill out one form and give them three copies of it, if they want three copies. But it's the same information just copied three times. As far as the application goes, it asks for nothing that we couldn't fill out in a very short time. The problem that we had most of the time was listing inventory. On one, I think that the individuals that have filled out these sheets are familiar, the verification sheet had probably 25 lines on it and many of the applications that I turned in had 6 pages of items that had to be listed and they wanted a specific price, serial number, make, model; all that information was provided, so it didn't take them very long to verify the information that we had.

Senator **Bumpers**. Have you, to this day received only 68 percent of what you——

Ms. **Eoff**. Sixty-eight percent.

Senator **Bumpers**. And that's all you've gotten so far?

Ms. **Eoff**. That is all.

Senator **Bumpers**. Do you know from what date they start computing the interest on your loan from? Is it the day you receive it or the day they mail it?

Ms. **Eoff**. I haven't closed my loan out.

Mr. **King**. Three days after the check is mailed is what they tell us.

Senator **Bumpers**. Interest starts 3 days after the check is mailed?

Mr. **King**. I think that is right; yes.

Ms. **Eoff**. I don't have that information. I'm just waiting to hear.

Mr. **King**. One thing I might say. On our applications they're requesting first mortgages on our real estate, first mortgages on our personal homes, they want our inventories, and they want our accounts receivable. Now, they take all of that as security for a loan; they say that we have to maintain our accounts receivable and our inventory at 150 percent of what the loan is. That puts us——

Senator **Bumpers**. Inventory and accounts have to be 150 percent of the loan?

Mr. **King**. Yes, sir.

Senator **Bumpers**. I'll loan you the money on that.

Mr. **King**. The problem is, you go through all of this stuff and it makes you do bad business decisions. I mean you can't be a good businessman and meet all this criteria. If you've got all your assets locked up on this one application and 6 months or 1 year from now something happens and you need to make a loan or borrow some money or something like that, you can't because it's all locked up and you've got to keep your inventory at a certain level.

Senator BUMPERS. Robert, did you tell me they take a mortgage on your personal home as collateral on your business loan?

Mr. SHANNON. Yes, sir, your home, your business, your inventory, and your accounts receivable. All I've got left is my wife and kids and I'm not planning on giving them up. That to me is the problem that we have. They force you to make bad business decisions. Why don't they just make you a loan, have someone verify it, and, if they make you the loan and you've got your money, it seems to me it's better for your business. It might improve your business—and that's another thing. You can't improve your business, you can't put it back better than it was, you can't buy more efficient equipment, you can't buy a better typewriter to replace the one that you lost. In our case we had a $1,000 typewriter and they allocated us $200 to replace it with, and I don't know where I can buy an electric typewriter for $200 unless I buy a used one.

Senator BUMPERS. You don't have any idea how they arrived at a figure of $200 for a typewriter?

Mr. SHANNON. That's for two typewriters. We lost two typewriters and they gave us $200.

Senator BUMPERS. For both of them?

Mr. SHANNON. Yes; we had a manual typewriter and an electric typewriter.

Senator BUMPERS. But do you know how they arrived at that figure?

Mr. SHANNON. Not really, no, sir. I would imagine it's through the discussion that when we're sitting down talking—we've had one verifier that came around and discussed the different things and asked us different questions, but, as far as him explaining actually how he arrived at the value, we don't know. It's just like in our one application they allowed us $42,000 for repairs to our air conditioners, our buildings, and all the other in that one application.

We've got one bid—they said don't get a bid from any contractors, don't go out and find out how much it's going to cost to replace anything. That's what they told us when we got our loan application. We got one contractor in Conway that gave us a bid to replace the flood damage to our building; it was about $38,000. Their loan is $42,000. We can't spend $38,000 on a building. They break it down and tell you you can only spend so much money. They don't allow us enough money to do what the construction company told us has to be done to fix our metal prefab building.

To me those are some of the problems that I have with SBA, and I can't see giving everything that you've got as security for a loan.

Senator BUMPERS. Roger, was your loan going to be at 11-plus percent interest?

Mr. RORIE. Eleven and one-half.

Senator BUMPERS. Eleven and one-half.

Mr. RORIE. Eleven and one-half with 3 years to pay it back.

Senator **Bumpers**. At what rate can you borrow money on the open market?

Mr. **Rorie**. Twelve and twelve and one-half. Without the added expenses my interest is cheaper to go to the bank and borrow it without the added expenses than it is to take the SBA loan. That's the reason I burned the papers.

Senator **Bumpers**. And can't you get it for a longer period of time, too?

Mr. **Rorie**. Sure.

Senator **Bumpers**. One thing that Robert said that is worth repeating, and that is in regard to the peoples's expectations. I think that was another problem. People thought that the Government was going to come in here, as they should have, and give you a fine assessment of exactly how long it was going to take and what you could expect from them, and, completely aside from all the other problems that developed, there was an expectation which was dashed in a hurry.

Jean, can you tell me why you don't have the rest of your money?

Ms. **Eoff**. Well, part of my money was designated to repair the building. I have five Arkla air-conditioners that were badly damaged and I have the Arkla in my store. They fixed those heaters for me. I didn't need the money. The appraiser estimated it would cost $2,000 to get a forklift fixed, you know, in good shape that went under. We were able to get that fixed for $1,100. We decided not to borrow any money to repair our buildings; repair them ourselves as we could.

Senator **Bumpers**. So you're not anticipating getting any more money?

Ms. **Eoff**. I doubt if I am going to need the rest of it. I am going to try to get by on what I have. I think maybe why my loan was not so complicated is I gave a loan—a security—on both of our buildings instead of an inventory and stock and other things.

Senator **Bumpers**. Were you asked to give a mortgage on your home?

Ms. **Eoff**. No; I had enough money in my buildings that secured the amount that they wanted.

Senator **Bumpers**. I see.

Mr. **Shannon**. In our application they asked for our building and they made a statement in here that the loan application was 20 percent of the value of our building and yet they still wanted inventory, our accounts receivable and our homes. In their workup sheet our loan application says it's 20 percent of the real estate value is what we were secured with. We are well secured.

Senator **Bumpers**. Yes.

What have you gotten so far, Robert?

Mr. **Shannon**. Nothing.

Senator **Bumpers**. You haven't gotten a dime?

Mr. **Shannon**. No; we haven't even been approved.

Senator **Bumpers**. When did you file your application?

Mr. **Shannon**. I don't remember—February—we had February 2d was when we were—I really don't remember, Senator, when it was. It's been—I got this one February 2d it's been approved. That was one of them that was approved that we had to turn down because it was 11½ percent interest with 3-year payback and our income didn't even cover what the loan itself was.

Senator BUMPERS. Yes.

Mr. SHANNON. It was the early part of January and I think—it must have been December because we had it filled out about 2 weeks after the flood. Our CPA fixed it up and turned it in.

Senator BUMPERS. I'll dismiss this panel and we have another one coming up. Let's all stand and stretch for about 5 minutes.

[Recess.]

Senator BUMPERS. Our next panel will consist of James Beavers; Charles Redwine of Royal Oaks, Inc., from Harding. Is Larry Ziner here? No. Dr. Ralph Tester, Van Buren County Veterinary Clinic; Jay Jackson, editor of the Van Buren County Democrat; Stephen James, attorney at law. If all of you will come up here and have a seat we will do exactly as we did with the last panel.

James, why don't you lead off.

STATEMENT OF JAMES BEAVERS, BEAVERS INVESTMENTS, INC., CLINTON, ARK.

Mr. BEAVERS. Senator, I hope some day that's Mr. President.

Senator BUMPERS. All courtesies appreciated.

Mr. BEAVERS. My situation is similar to most of those folks who have testified. I have two small businesses here in Clinton. They were flooded and we've applied for a loan. I've been approved; I still don't have any money. For the record I think only a couple of Clinton businesses have money. I think that's important.

Next week will be 4 months since our flood. That is one of our biggest problems along with the price of the money, the interest rate. I don't think that it's necessary that I go over all of the different things like everybody else did, but I do think that it's important that we get in the time frame.

Senator BUMPERS. James, thank you very much and I think you've said it about as well as anybody can say it. I appreciate that.

Any of you gentlemen that want to be next just take that seat there.

STATEMENT OF CHARLES REDWINE, ROYAL OAKS, INC., HARDY, ARK.

Mr. REDWINE. I'm Charles Redwine, Royal Oaks, Inc., Hardy. The business that I had destroyed was the finest restaurant in Hardy. We did make application for an SBA loan according to the instructions that we were given when we originally talked to the people that FEMA set up for us. At that time they told us they were going to give us very minimal money, just enought to get back in business. As a result of that we went ahead with my employees—they all agreed to come in and help for free—and got all the things cleaned up, all of the equipment that was still there. The building had about 15 feet of water in it and it floated about 5 feet off the foundation, and I find out now, when I got finished with my inventory, a lot of my equipment just plain washed down the river while it was off the foundation. Anyway, my employees, in an effort to have a job when this is all over, were willing to come in and work with me for free getting this all cleaned up. I had a friend, a contractor, I got him to come in and tell me what minimally it would cost to get the restaurant back in operation again, and those are the figures that we submitted to the SBA. We had a checklist at that time that they gave me as to what was needed. We thought we complied with the checklist. We went over it and sent in the information we thought they were asking for. However, since that time it just seems to be one thing after another they keep coming back for. It seems as though they have a problem distinguishing between the financial statement and the profit and loss statements and that delayed us for a while. Our last delay, right now, is that they told me before they can continue processing my application. They have to have a projected P&L statement for that restaurant for 1983. Now, under normal circumstances in making a loan that would probably be realistic. But when the appraiser came by he said that my property, my business, was a total loss. They did not allow me anything on the equipment as far as a prospect for a mortgage was concerned, even though in the process of getting information to see what it would cost to repair, and so forth, I also took the time to find out what new equipment would cost. It would cost me somewhere around $135,000 to replace all of the equipment in that restaurant. As far as the building was concerned, he said my 6,500 square foot building was a total loss and he would fill out the forms on the basis of that and the replacement cost would be $30 a square foot. Now I find out, as time goes along, that the City of Hardy does have the Federal flood control ordinance. They will not let me go back in business again and I have advised the SBA that I could not go back in business there, but still, before they will process my loan, I have to make up a bogus 1983 profit and loss statement on a business that is nonexistent, and that is the basis they tell me they are going to use to decide whether or not to give me a loan. It just doesn't seem to be realistic. This is the point that I am waiting for right now, is to see what happens in that.

Senator BUMPERS. Charles, you've presented one of the most interesting cases that's been presented here today. I'll be interested to see how that comes out.

Mr. REDWINE. I'd like to add a couple more things, and that is in the recession, in a recession-stricken area like Sharp County is, there is no one that's going to be able to get a mortgage for business and pay it back in 3 years at 11½ percent interest.

Senator BUMPERS. Is that what they're proposing to you?

Mr. REDWINE. No, I was just going on what— they've not even told me I'm going to be eligible. I'm still waiting to hear from them after I sent the latest information in, but, if it follows true to form, they will come back with another question and that was my next point. It would seem to me there would be someone at the SBA that would take an application when it arrives and go over it and make a determination at that time what additional information is needed and ask the applicant to supply that information instead of doing it piecemeal. They ask me for one thing; I send that in; they come back and ask me for something else and I send that in. It just seems to go on and on and on. Why not when that application gets there find out what you have to have that's not on there and tell me what you want all at one time and I can get it to you at one time and then we can get moving with it.

Senator **Bumpers**. When did you first file your application, Charles?

Mr. **Redwine**. Back at the first of February. I had a lot of leg work to do on that type of a loss. I had to go through the salvage, the mud, and it took me a couple of weeks to do that. I had to go through all of my equipment sitting there in the mud and debris and try to find where the serial number might be and the model number. I'm sorry about the serial number. They didn't ask for the serial number, but I had to go through each piece of equipment in that restaurant and get the manufacturer and the model number for my application. I think I had about seven or eight pages, single spaced, of equipment. Then to get some idea of what it would cost to replace or repair it, I had to make trips around the country where there's restaurant supply houses to find out what it would cost to get this repaired, or to find out what it would cost to get this replaced, and that took a considerable amount of time. I feel the main thing is that if they had written me originally, after I had sent it in, and told me we've got to have this other documentation and what all was needed, it could have been supplied and we should have been long down the road.

Senator **Bumpers**. Charles, how long had you had your restaurant?

Mr. **Redwine**. I started there in 1979.

Senator **Bumpers**. Has it been profitable every year since then?

Mr. **Redwine**. It's fairly marginal. Ever since 1979, you know, in this area we've been going into a recession. Hardy is really a vacation area. All we have to sell is the Spring River, and that's a summertime vacation, so the restaurant does excellent in the summertime. It was employing somewhere about 20, 27, 28 people on the staff as well as about 6 or 8 member band. We have live entertainment in the summertime, not because it's profitable but we all have to work together in those little communities to survive. It gets people to town and we can't live without getting people in town.

Senator **Bumpers**. Are you going back in the restaurant business?

Mr. **Redwine**. The problem I have in going back into the restaurant business right now is that this has gone on and on and on and on that there's no way I can get back in the restaurant business for this tourist season. There's no way you can survive in a restaurant that size in Hardy in going into it out of the tourist season. I haven't made a decision yet. I'm still looking for locations, if I can get money. My problem now, I have to try to see how I can go back to the SBA after they have totaled my building and see if they will give me more money, if they give me money at all. But the money I applied for to repair my building minimally and have my own people do the work on cleaning it to get their jobs back won't even touch what I need now to have a start with a new building.

Senator **Bumpers**. Thank you very much, Charles. I appreciate your coming down to talk to us.

Dr. Tester.

STATEMENT OF DR. RALPH TESTER, VAN BUREN COUNTY VETERINARY CLINIC, CLINTON, ARK.

Dr. **Tester**. I'm Erwin Ralph Tester, doctor of veterinary medicine. I graduated from veterinary school in May of 1981. This is my hometown. I came back here and went into business in June of that year as a large animal veterinarian only. That entails that—I have an office, mostly supplies and a headquarters—I work out of the back of a truck with a special mobile veterinary unit that carries all my medicines and supplies. That goes with me everywhere I go. My residence is a rented home on 303 Griggs in Clinton, Ark., approximately a block off of the town square where the highest waters were.

We had water 7½ feet to—inside the home. We lost everything in there except for clothes and dishes that we could clean up. My truck—my personal vehicle was in the garage and I wasn't able to get it out.

We filled out all the forms when they had the FEMA office here. We got the applications sent in within approximately 3 weeks. It was in late February before we even heard anything back from SBA. At that time they told me I was $600 in the red from what they could see and that I was a bad risk and they would not loan me any money on that account. Knowing that I'd only been in business 1½ years—I hadn't even planned on making any profit for 2 to 3 years—I contacted your office and I sat down and wrote a letter back to SBA myself asking them to relook at my application. At that time a Mr. Rend, from Grand Prairie, Tex., called me. He told me he had looked over my application and had received a letter that I had asked him to look back over it; took into account that I had only been in business 1½ years and that I shouldn't be showing any profit; if I could show him some figures of projected income that he would take this before the committee and see if he could not get my loan approved. The fact that I had some insurance on the truck, as a truck, took it out of SBA, they said anything that had any insurance on it we can't help you. I said all right with that, help me with everything else and he said taking everything—I didn't own anything, everything that I had already was mortgaged—that he would try to consolidate everything in one loan for me, if possible, but he would try to get my loan approved. Well, within 2 to 3 weeks I got an approval of the loan; a letter saying that both my home loan, which was separate, and my business loan was approved, and after their lawyers had gone through and fixed the paperwork that I would need to fill out, that they would send me that. Then they sent me both applications. This is my business. I filled out what I could on my home and was able to understand it well enough that I sent it back. They allowed me approximately $9,000 to replace my home furnishings. We sent that back, and then within a week they sent back and said you filled out everything but we want you also to take out insurance on this and put us as the beneficiaries, which I already had insurance on it anyway so I said I'll just switch that, but they wanted me to have flood insurance on it. After the flood I moved out of that residence into a residence high enough that if it floods the whole world will flood and right now I couldn't get flood insurance on it if I wanted to. We wrote them back about that account and we have not heard back on that.

On the business they allowed me $12,400 for supplies and equipment. They want everything that I have ever bought and intend to buy as collateral, even though it's already used as collateral, to secure this $12,400 loan. As it stands I haven't been able to understand all these papers yet and not willing to fill them out for that small amount of money when they're wanting $30,000 to $50,000 worth of collateral for it.

Senator **BUMPERS**. Have they told you what your interest rate will be?

Dr. **TESTER**. Yes, the business is 8 percent. The home was somewhere 6⅞ or 7 percent, I can't remember right now. It was extended out at a decent time period for the small amount of money.

Senator **BUMPERS**. Have you gotten any money yet?

Dr. **TESTER**. No.

I guess that's all.

Senator **BUMPERS**. Thank you, Dr. Tester. Jay.

STATEMENT OF JAY JACKSON, EDITOR, VAN BUREN COUNTY DEMOCRAT

Mr. **JACKSON**. Senator, I appreciate your being here and hearing the experiences of our people.

My own experience with people in SBA is that they've been helpful, understanding, sympathetic, and trying to do what they can under the rules imposed on them.

My comments are directed at a possible change of some of the rules and not at the people who are involved in administering them. Along with everyone else in town, I needed money more quickly than I received it. It took me until January 13 to compile the information needed to file an application for the disaster loan. Three weeks later I learned that my loan was approved for about 76 percent of what I had asked for. On February 7 I started placing orders for equipment and just last week the last items that we ordered were installed, which is only 2 weeks short of 4 months from the time of the flood. If nothing happens between now and when I go to bed tonight or in the morning this will be the first week since the flood that we have produced the Van Buren Democrat with our own machinery. I say our own—our own and SBA's.

During this time we've been getting by on equipment that was loaned to us by several of our publisher friends and on the extra work of the staff of the Cleburne County Times at Heber Springs, a group that's given us considerably more help than you would expect anybody to provide. If we could have been able to have ordered our machinery a month sooner, we would have been self-sufficient a month sooner than what we have been. Not that we're exactly self-sufficient yet but we're looking more like we're going to be some day.

As to the interest being charged, I feel that there's certain justification for a lower rate on disaster loans. The 11½ percent rate has been offered to some of our better operators and loans for short periods of time, like 3 years, is no concession at all as these people have said before me, and most of these people would rather not go through the trouble and the redtape if that's the best they can do. If the Farmer's Home Administration can loan money for commercial purposes at 10.75 percent for the building of apartment complexes, and they're doing that right now in Clinton, and at 7.375 percent for 40-year terms for water systems, it seems to me that other Government agencies might do better for disaster purposes.

It's been the inequity in the disaster program that bothers me more than anything else. Our larger and better businesses have been offered loans at the higher rates for 3 years because they've done well in the past. This is penalizing those who have succeeded and it's going to hurt our community in the long run because you need the larger and better stores to attract people to our town to shop.

Clinton progressed to what it was before the flood together and we will recover together. We all need each other and our customers need all of us. If my advertising customers cannot recover, I cannot recover either, and that's what bothers me about the way the program been set up. These people, to me, are just as deserving of the disaster help as I am, or anyone else, and I don't understand why a disaster program should be operated more like a poverty program.

I hope that someday I will see a government program that rewards hard work, efficiency, good management, and success rather than penalizing these traits. My suggestions for improving the SBA disaster program would be, first of all, to require less information for the original applications. My problem was that every price list and catalog in my office went out to the city dump with everything else so it just took a lot of time, like this gentleman here mentioned, gathering up information on what everything is going to cost. If you could just come off with—I had a rough idea what it was going to cost. Anybody that's been in business for a while knows roughly what it's going to cost and what you've got invested. Then if the time could be reduced between the time the application is taken until action is taken, that would be a considerable help, and then my third suggestion would be to make a disaster loan solely on the basis of the loss suffered and at the lowest rates possible. That we were doing well before a flood doesn't mean that we're going to be doing equally well in the future because it's going to depend on how well we all recover and how well we're able to regain our customers in our trade territory. Thank you.

Senator **Bumpers**. Thank you, Jay. That's an excellent statement. The last witness on this panel is Stephen James, attorney.

STATEMENT OF STEPHEN JAMES, ATTORNEY, CLINTON, ARK.

Mr. **James**. Stephen James, attorney here in Clinton. I've practiced law here for 7 years, from the time I graduated in 1976. I am the city attorney also and——

Senator **Bumpers**. You may be a senator someday. That's the way I started out, as city attorney.

Mr. **James**. Well, it doesn't pay very much.

Senator **Bumpers**. What do you mean, it doesn't pay very much. It didn't pay anything when I was it.

Mr. **James**. $50 a month.

Senator **Bumpers**. When I ran for Governor the first time I had on my brochure that I was former city attorney. I didn't tell them I was the only attorney in town.

Mr. **James**. Well, I'm not the only attorney in town. There are some other attorneys here that were also damaged quite heavily.

Senator **Bumpers**. You're not the attorney I saw on the Today Show that morning crawling out the window of your office, are you?

Mr. **James**. No, I didn't do that. I got out of here just in time. Not enough time to save anything but enough time to keep from having to swim.

I would first like to say that I've had three contacts with the SBA. The first time was when I picked up my application shortly after the flood, and the second time was when a loss verifier came to my office and looked at it, and the third time was on the telephone with a loan officer—this was several weeks ago—approximately 2 weeks ago. I received my papers this last week. That's what I have here in front of me are my loan papers.

I am not upset about the time it has taken because it took me until the very last day of the deadline to file my application. It's been 1½ months and I don't think that's too unreasonable. They've been courteous, dispassionate; they seem to be very inflexible. That's the problem that I've had with them, the Small Business Administration.

I understand the problem of the people here who said that they had to hire an attorney to read the papers because they couldn't understand them. I've read them and if they are as I understand them I'm shocked at some of the things that I'm being asked to sign in order to get a loan for this disaster. The one thing that I think is worse than anything else is that in my business—as the Senator knows—you don't have a lot of assets in an attorney's office. It's a lot of paper, there are some books, there are some typewriters and copy machines, and there is some furniture. When you have 5 feet of water over the top of that all of those things are virtually destroyed. I lost practically everything I had. My law library was worth—I had paid somewhere around $10,000, and it was thrown out in the street and pushed away by a bulldozer. I didn't have anything to sell like some of the merchants did in the city of Clinton after the flood was over with, even at a damaged price. I feel like the Small Business Administration regulations are geared toward that type of business, the business that seems to have a retail turnover, something left. Because of the fact that I did not have anything left as collateral, they've asked me to pledge everything that I have, personally as well as business. I am incorporated as a professional association and in a separate entity as such; however, that doesn't matter. They are asking me to pledge my home on the block along with my business and——

Senator **Bumpers**. Are they asking you, Steve, for a second mortgage on your home; is that what it is?

Mr. **James**. Actually they're asking me for a third mortgage because I already have two mortgages on my home, and I don't have that much equity in the home, but they want it anyway. The terms that they're asking for are reasonable, I think. They've given me an 8 percent loan and 20 years to pay it back which I felt real glad to get. In fact, originally they told me 10 years, but they changed their mind and increased it to 20, even though I didn't ask for twenty. But the papers they are asking me to sign—first of all they're asking me to sign these documents and they're telling me how I am going to spend the money. They're not just saying here's $24,000 to recover from the flood. They're telling me how much money I can spend and what I can spend it on. I cannot replace anything that I didn't have before. If I were to spend the money that they've allocated in the areas they've allocated, I would be spending money for things that I don't need anymore, things that if I'm going to recover, some day I'll want back, I don't need now. So I don't have any flexibility with where I'm going to put the money to recover.

Senator Bumpers. Have you not replaced your library yet?

Mr. James. No, I'm not going to. I'm going to get the minimum that I can get by with and use what's in the County Law Library until some day when I can afford to buy it back again.

There is an alternative, by the way. The Small Business Administration will loan $5,000 unsecured, but that's the maximum, and it appears to me that's probably what's going to happen to me. I'm going to be able to borrow the $5,000 and that will replace the $6,000 typewriter that I lost and that's about it.

The fact that they want to take a mortgage on my home and other assets that I buy with this money is just more than I can bear. I was luckier than some because I only lost my business. I didn't lose my home in this flood, but they've tightened the terms down so tight that if there is any other disaster or any other problem comes up I'm going to lose my home because of the Small Business Administration mortgage.

If I have time, I would like to read some of the terms in the documents, that seem to be form documents that probably everybody has here, to show that they are more than are necessary to protect the Government.

Senator Bumpers. We'll start and see how much time it's going to take.

Mr. James. OK. I'll just summarize it. One thing——

Senator Bumpers. Which form is that you're reading from?

Mr. James. Let me start with the mortgage. This is a mortage on all of the assets that I own. My house—actually I own my house and 15 acres—has two mortgages on it and I own another 6½ acres in another part of the county. One thing it says is that for better security in the indebtedness hereby secured, upon the request of the mortgagee, that's the Small Business Administration, its successors or assigns, he may execute and deliver a supplemental mortgage or mortgage covering any additions, improvements, or betterments made to the property and all property acquired by it after the date hereof. In other words, not only will this mortgage cover everything that I have now but if I ever buy anything in the future that I will not voluntarily create or permit to be created against the property subject to this mortgage any lien or liens inferior or superior to this lien without the written consent of the mortgagee. That I will not——

Senator Bumpers. That's not terribly uncommon though, is it, Steve?

Mr. **James**. Well, it would be if you were talking about a superior loan, but an inferior loan would not necessarily have an effect on the Small Business Administration. If I wanted to get a fourth mortgage, if there was somebody— I don't know who—but if there was somebody that would give me a fourth mortgage on my property, I can't do it without their permission. I can't rent it—my house—if I decide to move somewhere else I cannot rent my house without their permission.

Senator **Bumpers**. There again, my mortgage on my home in Washington has that same provision, which I don't like any better than you do. I discovered it after I signed.

Mr. **James**. It's not an SBA loan on your house; is it?

Senator **Bumpers**. No.

Mr. **James**. On the security agreement it says that in the event of default debtor shall assemble and make available the collateral at any place designated by the secured party. Debtor acknowledges being advised of his constitutional right to a court notice and hearing to determine whether upon default there is probable cause to sustain the validity of the secured party's claim, in other words, whether I'm really in default, the secured party being SBA, and whether the secured party is entitled to the collateral, and being so advised he voluntarily gives up, waives and surrenders any right to a hearing and a notice to determine whether there is probable cause to sustain the validity of the secured party's claim. They don't have to have any hearing at all. They can just take everything that you've got without notice, sell it at anytime in any manner that they think is reasonable on whatever terms and I don't have any recourse.

Another document, the guarantee, where they're asking me to personally guarantee this loan they say that also the obligation of the undersigned shall not be released, discharged, or in any way affected nor shall the undersigned have any rights or recourse against the lender by reason of any action the lender may take or move to take under the foregoing powers. In other words, I have no recourse against them if they made any mistakes.

That's about it. There are some other, I think, ridiculious problems in there. I represent the Clinton State Bank and we have some notes and mortgages that I have had an opportunity to review and I make recommendations on the terms but there are some things here that I would never recommend anyone sign because it puts the borrower in the position of one slip and you've lost everything you've got. It may be that if they made a mistake—even though they make a mistake you have no recourse against them and you're just stuck.

Senator **Bumpers**. What happened to your case files?

Mr. **James**. My active files were in the top drawers and I took blow dryers and irons and dried them out and I saved those. Some of the other files that I had that were active files were on my secretary's desk in the outer office. They washed out the window along with my checkbooks and a lot of my business records. Some of the checkbooks were brought back to me. The equipment that I had—word processor, copy machine that I had just bought—I still owe money for.

You can't take the money that you borrow from the Small Business Administration and——

Senator **Bumpers**. And pay that off.

Mr. **James** [continuing]. Pay those off. All you can do is——

Senator **Bumpers**. In fact, you're going to wind up with a double payment. You're going to be paying on what you lost and paying on what you're buying.

Mr. **James**. That's right. They want me to pledge all that I have bought, all that I own now as collateral for this loan and all that I own personally. I believe that that is going to be several times greater in value than the loan itself.

Senator **Bumpers**. Have you asked them to consolidate those two loans?

Mr. **James**. They told me that I cannot use this money to pay off existing debts. Also I asked them if I could not give them collateral as they gave me the money, rather than just pledge all that I own as collateral. They said they could not do that, that they just take everything and then they determine if I'm to get it. They want me to sign a note for $24,000. I don't see that there's any way that I can take that $24,000 under the terms that they are going to give it to me because they're going to tell me what I can spend it on. They're not going to give me that $24,000 until I've already spent the money. Who finances it in the meantime. Where does the interim financing come from? Somebody's just supposed to give me credit for whatever I buy and wait until they approve the advancement of this money.

Senator **Bumpers**. Could you not take the commitment of SBA for the loan and get the money at the bank? Wouldn't they loan you money on SBA's commitment?

Mr. **James**. I've not asked the bank to do that, I don't know.

That's all that I have.

Senator **Bumpers**. Does anybody have anything that you want to add to what's been said by any member of this panel?

Mr. **Jackson**. I did take my loan approval to the bank and borrow money on it.

Senator **Bumpers**. You did?

Mr. **Jackson**. Yes, sir.

Senator **Bumpers**. I was thinking someone else said they did that too, Jay. I forget who indicated they had borrowed money.

Mr. **Jackson**. That was Jean Eoff.

Senator **Bumpers**. Jean said she had borrowed money at the bank pending receipt of her money.

Mr. **Beavers**. One thing that I would add. I've never been late on paying my suppliers since I've been in business. I owe over $100,000 to those suppliers now; it will be 4 months next week. Three days after the flood I went back in business because those people were nice enough and trusted me and brought their materials and put them in my stores and cleaned the shelves as they were doing it to help me. I don't really feel good about owing those people that long, I'm 90 days past due and that's getting pretty far——

Senator **Bumpers**. And you're just still waiting on your money, James?

Mr. **Beavers**. Yes, sir. I got another set of papers Saturday.

Senator **Bumpers**. Your loan was approved though, was it not?

Mr. **Beavers**. Yes, 3 or 4 weeks ago.

Senator **Bumpers**. What was this new set of papers?

Mr. **Beavers**. I had to send a paid copy of the flood insurance—you have to pay for that flood insurance. I had to write a check for $1,400 and go down and get some—I thought I could do it after I got some money—I had to go down and get it and then send it in. I had to show SBA as lost payee on hazard insurance, fire and what have you.

Senator **Bumpers**. Gentlemen, thank you very much.

We have two more witnesses, one, whom I will call first, is Ann Young with Interfaith Disaster Relief Committee. I know that a lot of religious and charitable organizations have been here and have been very helpful.

STATEMENT OF ANN W. YOUNG, DIRECTOR, ARKANSAS INTERFAITH DISASTER RELIEF COMMITTEE, LITTLE ROCK, ARK.

Ms. **Young**. My name is Ann Young and I am the paid director of the Arkansas Interfaith Disaster Relief Committee. To explain that a little bit I have to give you just a brief history. This committee was called into being by the Arkansas State Council of Churches and Synagogues, first in 1978, when we had the floods in Pulaski County. That committee functioned for about a year, then it went out of business when those needs were met. When this disaster hit I was employed to reactivate that same committee to deal with this new series of disasters. At first, of course, in early December we felt it was going to be limited and then it became almost statewide.

Our committee is made up of approximately 20 churches, faiths, denominations and religious organizations. We are supported by church donations, primarily by the national headquarters or offices of the denominations that make up the committee. I am the only staff person; the rest of the work that we have done has been volunteer.

We were offered a great deal of quick training—I was offered a great deal of quick training. I've had no disaster experience prior to this and I learned in a hurry.

I was employed December 5 and have been working long hours ever since then.

The purpose of our committee is to coordinate the churches' response to the disaster victim, and we see our role primarily as being that of an advocate for the victims. We immediately set up a communication network; we set up a hotline where people could call in to ask for information or people who had resources and wanted to aid the disaster victims.

Senator **Bumpers**. Ann, did you do any work in Newport?

Ms. **Young**. I will explain that. Not me personally but representatives from our committee were active all over the State. Some churches functioned independently, as you know, and some work in coordinated efforts, and we were working to coordinate both those groups and keeping communications open to see that where there was a need the church was there, that a church organization or representative was helping. I did keep in touch with key people in both Newport and Jacksonport, working with Mayor Morris Dunivan of Jacksonport, and with the "Jackson County in Action," the cooperative volunteer group of that county which includes many of the churches of Newport. Our volunteer workers canvassed the Newport-Jacksonport area pretty carefully, and we worked with many families in that area.

Through volunteers, primarily from out of State, who specialize in disaster work, the Christian Reform Church, for example, has now sent in four different teams of volunteers, totaling 12 people. These people have worked door-to-door surveying in over 24 or more counties, in the hardest hit areas. They have developed for us a caseload of over 300 cases. We were attempting to search out those persons who did not know how to go about going for help, did not know how to go through the process, who had not applied or fell through the cracks and did not meet the guidelines of Government help or other agencies.

In the early days I was asked to meet or attend the FEMA briefings, and I served as a liaison between the Government agencies and the church volunteer sector, so I helped keep communications open that way. We worked closely with the Red Cross, of course, and other agencies. I worked with some local mayors, some local town officials, and a variety of people of that sort. For instance, I did work with the mayor of Rosebud in trying to get that area declared a disaster—the town declared a disaster. We worked as an advocate whenever we could. That has been our work, and we represent primarily individual homeowners and renters and though the cases we have developed are different in kind from what I have heard today, the complaints are the same. I simply represent a different constituency, if you will, of cases that we have worked with and I would like to summarize some of the experiences that we have had in working with more than 300 individual families, rather than business losses.

By the way, I do want to say that I too found the SBA personnel themselves very cooperative with me. What I have to say is more in terms of the policies and how they've been applied, for these variances in the way they have been applied that has been a problem.

I feel that the groups that we have dealt with that have been most hard hit by the administration of the SBA's policies are these: First the elderly and then the others on fixed income such as handicapped, and so forth, and then the medium-income people who are already stretched to the brink, to the limit of their resources, and then those who have no one to be an advocate for them. The people that you have heard today have been the people in business who have the know-how and have the resources of attorneys or others who could advise with them. The people that we dealt with had no such advocate and that has been our primary role.

In terms of the elderly, there seem to be several areas that have caused problems for them. For many it was simply a fear of long-term monthly repayment and it's incredible to me how many of our elderly citizens simply would not apply, would not make application for an SBA loan. They are already on a fixed income and another monthly payment was simply out of the question in their minds when they are retirement age. Therefore, they were automatically ineligible for the individual family grant, for which many of them would have been eligible. I have been outraged, really, in the requirement that one get an SBA denial before you can be approved for an individual family grant. That very process has eliminated help for hundreds of the most needy, the bottom rung level in economic terms of our citizens and that's been a major problem.

In general, the lack of understanding of the process as I've already mentioned, such simple things as required on the list of documents and records—the checklist you have—such simple things as a copy of the deed to the property. You wouldn't believe how many people thought that meant the deed, their original deed. They didn't understand that simple terminology and I have had dozens tell me "I wasn't going to turn over my deed to my house in order to get a loan," and they passed the deadline for that reason. So simple things like people didn't understand.

The difference in the loan rates. I've been amazed at some of the loan rates mentioned here today. The majority of rates that I've been dealing with and have heard from people who have been approved is 13⅞ percent. I haven't heard any of these lower rates for individual homes. Well, I've heard a few but the large majority are 13⅞. That's very close, of course, to commercial loan rates.

Individual families didn't understand the appeal process. That was another problem. People seemed to have the understanding or feel from the information given to them that they had to either accept what was given or that was it. So if they were approved for an amount more than they needed or that meant a long payment back that they couldn't handle, they just turned it down rather than negotiate a lower amount or anything else. They simply thought it was yes or no and that there was no appeal process. I have spent hours encouraging people to appeal what was required, calling Grand Prairie, and so forth, trying to get that all worked out.

Let me give you an example. A couple in Jacksonport owned a $17,000 home, a total loss. It literally washed down the river. There was another $9,800 in personal property loss. Just last week they got approved for a loan at 13⅞ making a $250 payment per month. Out of a total income of $810 a month they have they could not repay but were unaware of the options until we advised them of the appeal process. This happened over and over again and in many variations of that.

The data gathering process is too complex for many to understand, and again especially for the elderly, for those that are not extremely competent in their reading skills. For the elderly with no transportation, often no telephone, and no advocate, there was no way they could collect the information that was needed for the application. And it's not just the elderly, it's this low-middle-income group who are already stretched as far as they can go.

As already has been mentioned, dozens and dozens of our cases turned down the SBA loan because it meant a double mortgage.

So many dozens of our—I don't know how many—many, many people are going to be living below the level—will never regain the level of living they had before.

I noticed in some of the SBA material there was—and if I read it right—a way that you could incorporate your old mortgage into a new mortgage and put it all together. I've never run across a single—if that was true—family that was ever aware of that possibility or ever took advantage of it and were never advised or given any guidance by SBA personnel about how they might do this.

I brought along a number of cases. I would like to summarize just one or two in detail and then just briefly mention a few others.

I would like to mention a case in Malvern. Two brothers—and this happens to be a business loan situation—they had been in business 2 months. Their aunt and uncle had given them the property and they had built a building and they were repairing large trucks—trailer trucks—2 months before the tornado came and totally wiped out their business.

Now, these are not educated men but they have had years of experience working for other people in this business. They applied at the DAC center that opened shortly after the storm and have been working ever since trying to get their application through. They're still working on it.

Their problem was trying to get all the information in, and understanding the kind of information. One was told that he had to get an "expense schedule." The brothers were told different things by different personnel that they talked with. One was told that he had to have an expense schedule for 1983, when he wasn't even in business. They were wiped out in 1982 and had done nothing in 1983 and he didn't know what an expense schedule was. He called Grand Prairie and could not get a loan officer to explain in terms that he could understand what an "expense schedule" meant. I finally called myself. The first time I got nowhere, but finally got a loan officer just this week and got the information to our client as to how he might get someone who has been in the business to assist him in estimating what an expense schedule for him might be. He's only worked for 2 months; he doesn't know what it's going to be but they will guess, and we've been told that maybe they will accept that. He got one letter saying he had 10 days to get his IRS statement in for the past 2 years. All that was blown away by the storm. He couldn't even get in touch with IRS. The time limit was much too short. There are many other complications in that particular case.

I'd like to summarize some of the major problem areas which you've heard over and over again today. First, just let me mention two or three of these cases.

A couple 72 and 74 didn't apply because they couldn't pay back. They live on social security and a VA pension.

Another individual did apply; still waiting; haven't the foggiest idea where the case stands.

This couple applied and got 13⅝ interest rate and refused it because they had two payments to make and that was too high.

I won't go on, but there are dozens of cases like that.

To summarize: The interest rate is too high and inequitable. The process is too complicated for many to understand and there's not enough SBA staff or easy access to them to assist those with the process. The burden of proof is too much with the victims who may be elderly, chronically ill, handicapped with poor reading skills, or in other ways unable to function independently. In addition, in any disaster a victim is having to deal emotionally with a grief process and often is not functioning up to capacity.

I believe the SBA assumes too much about the victim and from them. There is not enough time allowed to gather the data for the application and there is neither consistency nor simplicity of language to properly communicate what is needed from them. There is sometimes a marked difference in the degree of flexibility of the staff to deal with the many variables of each case. In dealing with the field verifiers, I found some to be quite rigid and inflexible while others who seemed to be more knowledgeable of the program would bend some to meet the need decisively. In one case in particular, in Little Rock, one went out of his way to expedite an SBA denial so a poor handicapped woman could go ahead on her family grant which was very much needed. But there was a lot of variance in response to those kinds of needs.

I've already mentioned that the requirement for the SBA denial before an IFG could be considered is not only confusing but it simply discouraged hundreds from even applying for the IFG because they couldn't go through the SBA procedure.

Though many received prompt response, many others have suffered excessive length of time in application, and you would be surprised at people—many will not leave their homes to live in temporary housing for fear of looting or other loss of what is left of their property and, unfortunately, in many cases this is a realistic fear.

The discrimination between those who could qualify for a loan elsewhere and those who could not often penalized the middle income person and creates an unequal and unnecessary hardship in recovery, not to mention adding to the general mistrust that the Government really does want to help.

The SBA name itself is misleading, I found, to many individuals. They simply thought it was for businesses only, and I wish the name for individual home recovery could be called something else. It is on some of the material, I know, but in the publicity it simply doesn't get through to people and all they hear, of course, is the "Small Business Administration" and they just eliminate that program for themselves if they've lost their individual home. Again, dozens and dozens of people who had no advocate, no one to explain the process and no one to work with them, simply lost out entirely because of things of this sort.

That completes my report.

Senator **Bumpers**. Ann, thank you very much for your testimony.

Our last witness is George Darby, area manager for the Small Business Administration.

STATEMENT OF GEORGE DARBY, DIRECTOR, DISASTER AREA 3, SMALL BUSINESS ADMINISTRATION

Mr. **Darby**. Mr. Chairman, I would like to introduce the district director from Little Rock, Footsie Britt. I have also brought with me Mr. Ed Burkholder, who was the disaster branch manager here in Little Rock during this disaster, and my other assistant, Mr. Ray Chatham, who was the coordinator when the disaster office opened up and who now runs our processing center in Grand Prairie. If you have any questions concerning individual cases we have brought the files of witnesses that we were aware of and would be glad to answer any questions on those.

I am pleased to appear before your committee today to discuss the Small Business Administration's disaster loan program and, in particular, SBA's responsiveness in Arkansas.

As you know, on December 2, the State of Arkansas was ravaged by tornadoes, floods, and severe storms. On the 13th the President declared the initial disaster. By January 11 we had a total of 47 counties, 34 that were declared by the President and an additional 13 that were declared by Administrator Sanders. On the chart that Mr. Burkholder has, the counties that are colored in blue represent those declared by the President; the yellow are the ones declared by Administrator Sanders of the SBA, and the red dots indicate those counties where we had a physical presence for the purpose of interviewing and screening.

Senator BUMPERS. George, is there any difference in the kinds of aid, depending on whether the President declares a disaster or the SBA declares it?

Mr. DARBY. Not from the SBA, sir.

Senator BUMPERS. From the SBA standpoint the rules are the same.

Mr. DARBY. From the SBA standpoint the rules are the same in both cases. Obviously, there are other programs such as the individual family grants, that are not covered.

Senator BUMPERS. Yes.

Mr. DARBY. In a disaster of this magnitude the logistical aspects of response are, to say the least, difficult. In order for the Federal agencies to be as responsive as possible to the disaster victims, mobile disaster assistance teams are formed, known as mobile DAC's. These teams travel from location to location interviewing victims, giving out disaster loan applications, accepting requests for the individual family grant program, and basically assist them in any manner that they can.

As in the case of any Presidentally declared disaster, we are actually working under the aegis of the Federal Emergency Management Agency and their Federal coordinating officer who is appointed by the President. They decide where we will go, when we will go, and what hours we will be open. We had a team of 21 SBA employees in the State of Arkansas.

The first 30 days of this entire operation was spent interviewing and screening at the DAC centers FEMA operated. Those DAC's stayed open from December 15 through January 3. The following week we spent visiting the 13 counties that were declared by the Administrator. So in other words, almost an entire month we were concerned with interviewing and screening. Fortunately, we did have a central processing unit in Grand Prairie. The applications were accepted here in Arkansas. Our loss verifiers went out to the sites; verified the losses, and then sent the files to Grand Prairie for processing. The files did not go to Grand Prairie and then come back to Arkansas for loss verification.

I believe it is extremely important, at this point, to note that the SBA is involved in the long-term recovery of disaster areas. When you look at the Federal Government's disaster response and recovery, recovery refers to the SBA. We are not an immediate aid program. It was not intended that way. This is the responsibility of FEMA and other State programs who receive aid through the generous work of various other agencies, such as the American Red Cross, Salvation Army, Council of Churches, the Mennonite Relief Fund and many others.

Mr. Chairman, I would like to discuss the efforts of our agency here in Arkansas. The agency has been involved with disaster recovery since the agency's founding in 1953. The program is designed to help renters, homeowners, and businesses. We are there to repair or replace the uninsured portion of their losses. For homeowners, we can loan up to $50,000 to repair their homes, up to $10,000 to repair their personal property or a combination of $55,000—and I don't know how that ever came about, it just did.

For businesses we can make loans up to a half million dollars. Our maturity on these loans can run as long as 30 years. Under the law, the interest rates depend on whether an applicant can secure credit elsewhere. The rates also differ for homes and businesses.

Changes in legislation over the years have made this program more responsible for the use of Federal moneys. It is incumbent upon the agency to insure that these moneys are used properly. The SBA is a lender, but unlike the local bank we are starting out fresh. We don't know the people that we are making loans to. We don't have a long track record with them. We don't have financial statements on file as most businesses have with their local bankers. Thus, we have to require the applicant to furnish us with the information documenting their employment, their losses, et cetera.

We're required by agency rules and regulations, and indeed by good business sense, to physically inspect and verify the damages and the dollar amounts necessary to repair those damages; we are required to verify the ownership of any damaged property; we are required to verify the victim's income as well as their expenses and debt payments and to certify that the applicant has reasonable assurance of repayment ability; we are required to verify their previous credit, and to certify that they are creditworthy; and, if the loan is for an amount over $5,000, we are required to secure that loan. To do so we must obtain and record collateral.

This process takes time, Mr. Chairman. Not an exorbitant amount of time, but nevertheless, time. And, dependent upon the size of the disaster and when the applicant returns his application to the SBA, this time period is going to vary.

We have another chart here that I would like to discuss. This chart shows the applications that were received both in quantity and time, time running across the bottom and quantity up and down. The red line represents the number of applicants that we received. The green line, the verifications that we made. The blue line on the bottom is the number of applications processed and the time that it took. The line running up and down the middle represents the filing deadline, February 11. As of the 30 days——

Senator Bumpers. How was that 30-day deadline determined?

Mr. Darby. It was established a standard 60 days from the date the President declared the disaster.

Senator Bumpers. OK.

Mr. DARBY. As of the 30-day point in this declaration, you will see that we have 235 disaster loan applications. All of those loans have been processed and approved, and the turnaround time—that time being the difference between when the applicant gave us his application and when we notified him of approval—the average time was 27 days. That's by actual count. At the 45 day point in the disaster declaration, we had 326 applications in house and all of those applications have been approved. The turnaround time on those was slightly over 27 days.

As a comparison, the Federal Housing Administration has an average processing time of 30 days, and their function is limited to appraisal of a piece of property which is done by fee appraisers and a review of a totally complete, accurately correct, application prepared and submitted by a mortgage company for their guarantee. During the last 2 weeks, as you will notice, we took in 301 applications, or almost one half of the entire workload for the State of Arkansas was taken in the last 2 weeks of the declaration.

Senator BUMPERS. The total number of applications in that 60-day period was 600 and——

Mr. DARBY. 632, if I recall correctly, sir.

Senator BUMPERS. And that's been all the counties that you showed a while ago?

Mr. DARBY. Yes, sir, throughout the State.

One of the complaints raised about the SBA program in Arkansas involved the time that it took to make decisions on business disaster loans. We went through our records just before coming up here last Friday and we had accepted 47 business disaster loan applications from Clinton. All of those applications have been processed and the average turnaround time was 29.7 days.

As I just mentioned, the processing of applications will depend on when that applicant comes in. As you can see, if they came in the last week it creates a bulge within the operation and it does have a tendency to slow it down. However, I am pleased to report to you that as of the close of business Friday, March 28, we had processed 94 percent of all loans received from the State of Arkansas, and the average turnaround time was 29 days.

Senator BUMPERS. Of those 94 percent, how many of them have their money?

Mr. DARBY. If you'll flip that chart one more time. The top line represents approved applications; the red line. The blue line represents when the closing documents were mailed to the applicant. There's usually about a 2-day lag from the day we approve it until we have the closing documents prepared, typed, and mailed to the applicants. The green line represents the number of applications—the number of closing documents that have been returned to us. So to answer your question, as of Friday I think there were 79 that had actually returned their documents to us and we had made disbursement on.

Senator BUMPERS. Well, let's see. I'm trying to determine the time lag between the time the closing documents are mailed to an applicant and the time the applicant sends it—you get it back. What is the time lag there?

Mr. DARBY. I honestly can't answer that question because it depends on the applicant.

Senator **Bumpers**. From that chart there all you know is that out of 265 applications that have been approved you've only gotten 79 back.

Mr. **Darby**. That's correct.

Senator **Bumpers**. Well, does that mean that those have just been approved? Would that indicate that most of those applications have just been approved very recently and you haven't had a chance to get them back?

Mr. **Darby**. The point where the 79 figure is is back on January 21, and we had that many approved.

Senator **Bumpers**. The blue line indicates is the approved ones, right?

Mr. **Darby**. Yes, sir. No, the blue line is when the documents were mailed out.

Senator **Bumpers**. Well, the two lines that we are talking about here are that the closing papers have been mailed and the ones you have gotten them back from?

Mr. **Darby**. Yes, sir.

Senator **Bumpers**. So the blue line and the green line are the two lines we're interested in.

All right. Let's just take as an arbitrary date January 14. You had approved, roughly, 20 applications and sent the closing papers.

Mr. **Darby**. On about 20 of those.

Senator **Bumpers**. On about 20 of those?

Mr. **Darby**. That's correct.

Senator **Bumpers**. All right. On February 18 you had sent closing papers to 125?

Mr. **Darby**. Yes, sir.

Senator **Bumpers**. Well, now, you see, that's been 1 month and 10 days and you still have only 79 back.

Mr. **Darby**. That's correct.

Senator **Bumpers**. So that means these people are holding these closing papers or they don't intend to send them back for some reason, doesn't it?

Mr. **Darby**. I think there's a lot of reasons. I think it is more than possible that some people are having difficulty understanding——

Senator **Bumpers**. We know what happened to one set, don't we?

Mr. **Darby**. I think some people don't intend to send them back. I think some people are not ready to rebuild because of whatever reasons and they're waiting before sending them back. I think there are a number of reasons.

Recently there were several complaints, or dissatisfactions, which were contained in various media reports, and one of them dealt with the issue of timeliness.

Mr. Chairman, I wish we could have a turnaround time of 2 or 3 days, but that is impossible. As I mentioned earlier, once we receive an application from a disaster victim, we must send a construction analyst to the damaged property to inspect and verify those damages. Then we must order a credit report. We must log it in and docket it and perform all the normal credit processing, type all the documents, review the loan for legal sufficiency, record the collateral, and so forth. And, it does take time. I recently bought a home in Grand Prairie myself and from the date I signed the purchase contract until the date the loan actually closed was 52 days. I was informed by both the mortgage company and the title company that that was about average. However, I really feel that compared to the private sector, or other Federal agencies that operate under similar workloads, our turnaround time is very good. We constantly review our operations with an eye to improvement, and I am happy to say that on virtually every disaster that we've had over the past year we've decreased the time a little bit more.

Another concern which has been raised regards doing business with SBA by long distance telephone. Due to the size of the Arkansas declaration, there was absolutely no way in which we could have established offices in all 47 counties. However, had a decision been made to fully process the Arkansas loan applications in Arkansas, we would for all the obvious reasons have located that office in Little Rock. As a matter of fact, when we first came here, based on the projections made by the Federal Emergency Management Agency of the number of people we would be serving, we leased approximately 4,000 square feet in Little Rock; we had the furniture here on site in place, and we were prepared to run the operation from here. It became obvious within a week or two that we weren't going to have that number of applicants. We decided, however, to keep the office in Little Rock for a period of 10 weeks. We were there to service any complaints, handle any questions, and to be of any assistance which we could. It has been our experience that in a disaster very few victims, probably less than 5 percent, actually come into a disaster branch office to solve problems or ask questions. The majority simply pick up a telephone and call the office to get a response.

And the reverse holds true as well. If an SBA loan officer had been located in Arkansas for the processing function and had needed additional information, he or she would pick up the telephone and call the applicant. Exactly as was done in Grand Prairie. If after two or three attempts the loan officer was unable to contact the applicant, a letter would be sent requesting additional information to be forwarded to the office, exactly as was done in Grand Prairie.

There is one important point to be made regarding the use of telephones. If the SBA Disaster Office had been located in Little Rock and a disaster victim in Clinton, Ark., needed to call the SBA, the telephone charge for a 3-minute, station-to-station, non-operated-assisted call between the hours of 8 in the morning and 5 in the evening, would be $2.30 plus tax. That same call to Grand Prairie, Tex., is $1.43 plus tax. So the cost was actually cheaper.

There is, Mr. Chairman, one more point I would like to raise, which is also contained in a recent newspaper article. One disaster victim mentioned that the local banks should process the SBA loans.

Obviously, the SBA cannot turn over the disaster funds to the local banks. Nevertheless, it raises an issue of concern to us, and one in which we feel the local bank can become involved, and that is the matter of interim financing.

The SBA can provide in disaster loans for the repayment of interim financing which was used solely for the purposes of repair and replacing damages. For example, a store owner who has had his inventory completely destroyed could apply to the SBA for a loan. He knows that it's going to take us a few weeks to process his loan. He, at that time, could go to his local bank and make arrangements for a loan from the banker. The banker knows this individual, has been doing business with him, chances are he has financial statements on file, and he knows the credit worthiness of the individual. On that basis he's prepared to make a decision up front. And he may very well make him a loan to help the man get back in business.

We cannot make a commitment to that bank until after the loan has been processed and the loan closed. But at that point the store owner could take the funds from the SBA and go down and pay off the local bank.

Frankly, just being real honest with you, I don't think we have done a good enough job explaining that to the local banks, and because of that article we have established a new procedure now. At the beginning of a disaster we plan to go in and meet with the local banker and explain to them how our program works and ask them to be of assistance whenever possible.

I would say there is nothing to preclude a local bank from making a loan to a disaster victim. There never has been, it's been done many times, and we see in every disaster where interim loans are made, particularly business disaster loans. I think it was a good point that was raised and we wish to address it.

Finally, Mr. Chairman, I would just like to say that I personally am very proud of the work that our staff has done in the Arkansas declaration, as well as in the concurrent disaster declarations in Missouri and Louisiana. I think it is important for the committee to understand a little known fact about our disaster staff in Grand Prairie. Almost one-half, actually 47.5 percent of our loss verifiers, loan officers, and attorneys, have been disaster victims themselves. In fact, that's how they came to work for us. They came in to apply for a disaster loan. They are not faceless bureaucrats and they do care. I think they work real hard at what they do. I cannot help but believe that our people have been instrumental in bringing a lot of assistance to the people of the State of Arkansas in this devastating disaster.

I will be pleased to answer any questions.

Senator BUMPERS. George, of all those people whose loans have been processed and the closing papers returned to you, how many have received their money?

Mr. DARBY. When the documents are returned to us, that very same day we fill out a form and send it to Denver notifying them to mail a check to the disaster victim. It probably takes them somewhere between 7 and 10 days. I would like to be more specific, but I don't know.

Senator BUMPERS. One of the things that is really troubling to me is that James Beavers said, 4 months after this disaster he only knows of two people in Clinton that have any money. I was just wondering how many people in Clinton have you received closing papers from.

Mr. DARBY. I honestly don't know.

Senator BUMPERS. Someone here seems to know. Please identify yourself and answer the question from there.

Mr. BURKHOLDER. My name is Ed Burkholder. I was the branch manager in Arkansas during the last period of the operation there. According to the figures that I jotted down before coming here we received completed closing documents from seven individuals in Clinton——

Senator BUMPERS. You've already disbursed among all of the seven?

Mr. BURKHOLDER. They've made disbursements. Possibly not all of the money——

Mr. DARBY. Let me clarify one other point, if I could, because a lot has been mentioned about the use of proceeds and the method of disbursement.

We are required to make these disbursements and to monitor the use of the proceeds. That is, the funds can only be used for the purposes for which the loan was made. We do not disburse, for example, if a person had a $150,000 loan. If that person can come to us and show us the invoices, we'd go ahead and disburse the entire $150,000 on the recording of the collateral. In most cases, however, it's a matter of having a contractor lined up and as soon as they notify him he'll start to work on it. We'll disburse this in three increments. It's not only for the protection of the Government's interest in the property to see that the property is repaired but it's also to the benefit of the victim. In regard to the interest—he only pays interest on the amount of money that he receives. In other words, if he had a $150,000 loan and he took a drawdown of $50,000, he's only paying interest on that $50,000 until, the time he gets another $50,000 and so on.

Senator BUMPERS. Well, there's got to be something seriously wrong when you send out 265 closing papers and you only get 79 back. Now, that means that people decided they just can't hack the payments, such as Roger Rorie here today, or they just decided this whole thing is not worth the effort for some other reason.

Mr. DARBY. About one-third of the loans that were written in the State of Arkansas were written at the high rate of interest and——

Senator BUMPERS. One-third?

Mr. DARBY. About one-third and particularly on the business loans where you're limited to a 3-year maturity.

Senator BUMPERS. You can't expect any sensible businessman to take money like that? Can you?

Mr. DARBY. No, sir.

Senator BUMPERS. Who wrote that rule? Was that done in Washington?

Ms. LEWIS. Yes, sir.

Senator BUMPERS. Was that pursuant to the amendments we passed in 1981?

Ms. LEWIS. Yes, sir.

Senator BUMPERS. Well, that's one that's going to be changed. That's the most outrageous thing I ever heard of. I was in the furniture and hardware business, just like Jean Eoff, for 18 years. I could no more accept a loan like that than I could have flown to the Moon during the period I was in business, and I don't think anybody else can.

I grew up in a town just about this size and I know what it's like to be in business in a town like this.

Mr. DARBY. In reality, Senator, the only time that those loans are going to be acceptable is when the damage is relatively minor.

Senator BUMPERS. George, can I ask you this. How do you determine whether victims have credit elsewhere? I have mixed emotions about the credit elsewhere test. We debated that at length in the Senate when we passed that bill. I'm not interested in giving subsidized interest rates to very wealthy people and I don't think that ought to be the role of Government. That's one of the problems I've always had with student loans The credit elsewhere test necessarily has to be very arbitrary. What rule do you use in determining whether they have credit which makes all the difference in the world to them what interest rate they're going to pay?

Mr. DARBY. Basically you have two tests: The cash flow test, which would be on a homeowner who has major damage to his home, he has both personal property losses and real estate loses. You take the amount of the personal property loss, let's say that's $8,000, you take what the bank over here on a standard 3-year note for that type of loan would charge—his monthly payment there—you add to that what a 10-year home improvement loan would cost, and if the applicant could afford both of those payments out of their income, then they qualify for the higher rate. If they don't pass the test, there's an asset test. For businessmen this is the one that usually tips it over to the higher scale. First of all, on a homeowner you would eliminate the home and contents like the personal automobile—that type of thing. If the net excess, assets after any liens that are against them amount to 150 percent or more of the amount of the loan to be borrowed, then it is determined that the person could obtain the funds through the normal lending institutions and they get a high rate of interest.

Senator BUMPERS. Well, there's one thing in the law that's definitely going to have to be changed. Here we have a unique situation. Normally in Arkansas we just expect in the spring of the year to have tornadoes. We've had them every year and we're going to keep having them every year. So we know we're going to have needs for disaster loans and disaster relief every year. You see, in that instance people almost always have insurance. If they owe on their homes they're required by the lender to have insurance. But in this case, the Corps of Engineers had assured these people for years that they were just as safe as a nest in the tree, and all of a sudden they get wiped out and they have no insurance. The thing that is creating such a hardship here, of course, is, as you heard in the testimony time and again, they're going to be paying twice. Steve is going to be paying on his law library that he lost and he's going to be paying on a new law library. That's the case with almost everybody in town that owed on their business. They're going to be paying for their old inventory and their new inventory and that's absolutely impossible. Now, it seems to me that in that instance there ought to be a very low rate of interest because many of these people, since we're in the middle of a recession, were just kind of hanging by their thumbs anyway. We know of areas designated as a flood plain where people just defy the law of nature and refuse to take insurance. But that was not the case here.

The case here was that people thought that they were safe. Nobody ever dreamed his business was going to be flooded here, so this is what has created such a terrible hardship. And to charge these people the credit elsewhere interest rate is really a terrible, terrible burden. If there's any way in the world that you can administratively avoid it, you ought to strain every way you can to do so.

Mr. **Darby**. Believe it or not, Senator, we don't try to throw people into higher rate of interest categories. We try, and as long as the numbers come out right—I don't want to sound like just a hard old statistician here, but the numbers are what they are and there's not much we can do to change that.

Senator **Bumpers**. Let me ask you this, George: During this whole period of time, since this flood and the tornadoes here in Arkansas what have you done about staffing? Have you had adequate help to do this job?

Mr. **Darby**. Yes, sir.

Senator **Bumpers**. Why has it taken so long to get these things processed? That's the one thread that has run through every single witness today, and that's the delays, and the time lags.

Mr. **Darby**. Well——

Senator **Bumpers**. You mentioned in your statement that your agency is charged with the responsibility of providing long-term aid and I understand that. But when you have a disaster, long-term aid and short-term action are two different things. Just because you're providing what you consider long-term aid to help somebody get back on his feet doesn't mean that it ought to take a long time to do it; does it?

Mr. **Darby**. No, sir, and I believe that where we are processing these loans within a 30-day time period on the average, that has generally been considered an acceptable time period.

Senator **Bumpers**. Let me say this: Most people gave your employees credit for being polite and kind and thoughtful and at least not arrogant. Some people hate government anyway and many hate bureaucrats, and they sure hate one that's rude, so at least you've got that going for you, George. Apparently your people have been well-trained in the courtesies and civilities that all government employees ought to use. But you heard a lot of people say they kept coming back and saying you've got to do this and you've got to add this and that sort of thing. How do you respond to that?

Mr. **Darby**. I sincerely hope these are isolated incidences. When the loan application is received, our loan officers are charged with screening the application for its inaccuracies and at that point in time they are to notify the applicant if there is something missing. On a home application that's relatively easy to do. On a business application, unfortunately, that's not always that easy to do. For example, if a business applicant submits an application and we don't know the breakdown on the ownership, along with financial statements, information comes back in such a way that the financial statements throw the applicant into a higher rate of interest. Sometimes in a business loan one question may appear to be the final question, but the response to that question will generate an additional question. Hopefully it isn't widespread because we do harp on this all the time. I think it's embarrassing to me, as an agency official, to have an applicant be told we need this, this, this, this and this before and we can process your loan, and when we receive the information find out that somebody overlooked the fact that we didn't have a deed, or we didn't have a copy of the tax returns, or something like that.

Senator BUMPERS. George, if you had the authority to do it, what management policies would you implement, if any, to make your agency more efficient and make people feel happier about the assistance your agency provides—your administration provides?

Mr. DARBY. Well, that is an area that I am really not that qualified in because there is a legal aspect to it, and that is in the area of closing. I think the chart demonstrates it takes time to close these loans. As a matter of fact, in Washington last month we had a task force made up of various attorneys from four areas to try and find ways to simplify the closing process. To give you just a little story here. About a year ago we had a disaster in Breckenridge, Tex., and in an article that ran afterwards in a local newspaper a gentleman said, "My God, they sent me 15 forms to fill out just to close a loan." I thought that had to be the most overstated thing I have ever heard in my life and I went back and got his file and we had sent him 13 forms to fill out. We are going into a process of trying to consolidate these, not as a way of defense but as a matter of fact. The forms that we send out are things that are mandated either by Federal or State law, depending on the State that you are in.

For example, my favorite pet peeve is that we have to have everybody agree not to buy lead-based paint. The fact that you can't buy lead-based paint does not seem to bother anybody; we have still got to have them sign a statement saying they won't buy lead-based paint. There are many areas——

Senator BUMPERS. It's silly, isn't it.

Mr. DARBY. It is, but once again, there's not anything I can do about it or our people can do about it.

Senator BUMPERS. Let me ask you this: Some of these people don't have the money—let's take Stephen James, the young lawyer you heard testify a while ago. He wants to buy a new library. Let's just assume that he wants to replace what he had. It's going to cost him $10,000. He can't get any money from SBA until he buys his library. Is that not true?

Mr. DARBY. That's not true.

Senator BUMPERS. What can he do?

Mr. DARBY. Well, first of all, we can disburse a certain portion of the money up front to get the people started. A lot of things you go out to buy you can't charge or you can't contract for. In the case of a library he could give us an invoice showing he has ordered the book and has an invoice from the company that it is being shipped.

Senator BUMPERS. Well, what if the company doesn't want to give him any credit until he's got money in the bank? In other words, he can't show you an invoice until he gets the merchandise; he can't show you an order pad until somebody's ready to extend him credit.

Mr. DARBY. I would say in that particular case he can show us the order slip on whatever that they're going to be disbursed. I don't know of anything—

Senator BUMPERS. Now, just there again, that's just typical Government stuff. It just seems to me that in these cases there ought to be some discretion. Maybe you don't have it, or in many instances, I know people are a little afraid to use discretion, but in a case like that, he's going to buy the books. It's his livelihood, he can't practice law without a library.

Mr. DARBY. I wouldn't have any problem with it.

Senator BUMPERS. It looks to me like you should ought to let him sign his closing papers and send him a check.

Mr. DARBY. We have to send the closing papers and ascertain that certain collateral has to be recorded and returned to us. At that point, we would order one-third of the amount of the loan to be disbursed.

Senator BUMPERS. Yes. But what you're creating is a kind of hen or egg situation. He can't buy the books until he gets the money and you won't give him the money until he's at least ordered the books or bought the books. It seems to me that's a real problem. I'm just using the library as an illustration because that's obviously true in a lot of other cases, too.

Mr. DARBY. Actually in that case I don't see any problem that would be involved.

Senator BUMPERS. Incidentally, Jay, before I forget it, who's supposed to give the money to the library here? That's not SBA, is it?

Mr. JACKSON. No.

Senator BUMPERS. Who is that?

Mr. JACKSON. Well, the grant will come from FEMA and our flood insurance will come from the National Flood Insurance.

Senator BUMPERS. OK.

Mr. DARBY. One other statement that was made earlier, and I concur with it, I think a lot of times expectations are created that can't possibly be met. The one thing I would like to say is that nobody from SBA has ever told anybody that we're going to process loans in 1 week or 2 weeks. Now, some other agency may have come in and said that. I regret it, but it was not SBA.

Senator BUMPERS. Why couldn't it be processed in a couple of weeks?

Mr. DARBY. Basically because I don't think you could hire the personnel necessary to do that, Senator.

Senator BUMPERS. You have to hire personnel every time you have a disaster?

Mr. DARBY. Not every time. We have a cadre of technicians, loan officers, verifiers, and so forth. Within our area we have a total of 35 cadre members. Anytime there is a disaster that exceeds their capability we have to go out and hire temporary employees. There are a number of people that work on a temporary basis—I worked that way for 10 years myself—and that's how we build up the staff.

Senator BUMPERS. Who determines the adequacy of collateral, whether it's sufficient to cover the loan or not?

Mr. DARBY. Basically, we take collateral up only to the dollar amount of the loan. I mean, that's basically all that we—I shouldn't say only—sometimes you have a piece of property that greatly exceeds the value of the amount of the loan.

Senator BUMPERS. You heard somebody over there say you had to have 150 percent.

Mr. DARBY. I'm not familiar with that particular instance. We had one gentleman who was——

Senator **Bumpers**. Robert, was that you?

Mr. **Shannon**. Yes, sir. I said that and here's the papers right here.

Senator **Bumpers**. What does it say?

Mr. **Shannon**. It says, "Other considerations No. F 14. Buyer agrees to maintain inventory and accounts receivable at a value of no less than 150 percent of the unpaid loan balance. Receivables to exclude any account more than 90 days old."

Senator **Bumpers**. What do you think about that?

Mr. **Darby**. Let me ask Ed about it because he's familiar with that loan.

Mr. **Burkholder**. There is a 50-percent requirement that we require accounts receivable or an inventory—in liquidation you never can obtain the amount of funds——

Mr. **Shannon**. But you also want my house and my business, too. You want everything that I've got. That's what my complaint is.

Mr. **Burkholder**. In Mr. Shannon's case he has two different corporations that received two different loans. One corporation has an inventory and accounts receivable as their assets; that would be the Shannon Supply Co.

Mr. **Shannon**. That's the one you want our house.

Mr. **Burkholder**. That one—those items were considered insufficient in themselves to cover the loan so it was required that Mr. Shannon guarantee the loan personally, secured by a second deed of trust on his house. If the conglomerate of those collateral items still make it insufficient to secure the loan, and if that is all that's available, we can make him a loan at that point.

Senator **Bumpers**. Personally, if Robert Shannon were going to Little Rock to make a SBA loan in the normal course of business I might understand something like that. I think that would be awfully stringent because Small Business Administration is supposed to help small businesses when nobody else will. But in the case of a disaster loan, that seems especially stringent to me.

Mr. **Burkholder**. It is, from that viewpoint, but it is required of us. We have to take what collateral is available to secure the loan and if they're willing to pledge that, even if that's insufficient, we can make the loan on that basis.

Senator **Bumpers**. The point he is making is a very legitimate one. For example, if he didn't have a house and he didn't have anything else to pledge except his inventory, you're asking him to maintain 150 percent of the unpaid balance. There isn't any way for him to do that. Robert might be able to do it, but I can tell you the ordinary fellow couldn't do it and maybe Robert can't do it; I don't know what his situation is. I know most people couldn't do that.

Let me ask you a couple of other questions and then we're going to close this hearing out.

Mr. **Darby**. One other point if I might, Senator. One of the witnesses today was talking about the fact that we took a lien on his house. That's correct, but after taking a lien on equipment, furniture, the house and everything we only had a loan that was approximately two-thirds collateralized, that was all.

Senator **Bumpers**. Are you saying that taking a lien on everything a man owns isn't the worst thing in the world?

Mr. **Darby**. I'm just saying we were not taking everything the man had for the purpose of taking what he had.

Senator **Bumpers**. You heard these people talk about having to get models and serial numbers of equipment and all that sort of thing. Just tell me, does anybody ever look at that?

Mr. **Darby**. I'm going to be honest with you, Senator, that came as somewhat of a surprise to me. When we go to verify losses the only serial numbers that I know we require are serial numbers of items that will be pledged as collateral. If a man has a typewriter here that's been damaged by the flood it doesn't make any difference what the serial number is.

Senator **Bumpers**. You heard at least two witnesses here today say that they were trying to find old documents to give the model and serial numbers on equipment that had been washed away or destroyed.

Mr. **Darby**. It's not a requirement; is that correct?

Mr. **Burkholder**. No.

Mr. **Darby**. Did you require this here in any way?

Mr. **Burkholder**. It's helpful if the individual has the model number, but there's no requirement for the serial numbers to be given.

Senator **Bumpers**. Well, they admitted that, but why the model number on something that's gone down the river?

Mr. **Burkholder**. To help establish the valuation in the verification report. If something is not there and you have a widget and there's 10 different models, one could be worth $1 and one could be worth $10. On one side we wouldn't want to offer you $1 in compensation for something that you lost that was worth $10, and if you tell us what model number it would help us. It's not a requirement, however, to completing the application so that you can turn it into SBA.

Mr. **Darby**. In our fact sheet that we pass out we tell people that a contractor's estimate would be helpful but it isn't necessary.

Senator **Bumpers**. Did you hear Kevin King say that the folks in Hardy are still waiting for the SBA to come back, they haven't seen them in a long time?

Mr. **Darby**. Well, we have verified every loss there. We've taken every application and verified every loss and there's only 40 applications waiting for processing now in Grand Prairie. As far as I know we have no intention to go back to Hardy unless somebody feels that their losses were underestimated. We'll go back and verify the loss on something like that but everything's been verified.

I really didn't know about Hardy or we would have tried to get you some statistics on Hardy.

Senator **Bumpers**. Well, that just about covers it. This has really been a help to me. I'm going to do my best to change some of the rules.

Mr. **Strickland**. Senator, may I address you and the committee, please, for just a minute. My name is Dan Strickland, I'm an attorney in Clinton and I feel almost that a point of honor has been raised by Mr. Darby.

I would like to take just a moment if I could. I resent the fact that Mr. Darby is implying that the people in Clinton have contributed to their own problem because they haven't gotten the papers back in time. I resent the fact that he has taken statistics and drawn charts on information that is extremely misleading. I've worked on approximately a dozen applications and I know what SBA's talking about, I know what Mr. Darby's talking about, and I know how he arrived at his charts. The first loan applications that were sent in the papers were sent in, they were processed and the turnaround time was reasonable, as Mr. Darby said. Loan closing instructions were returned to persons. I looked at those because people would bring them to me to either review as a friend to advise them upon it or to help them fill them out. Some of them I looked at the applications and I was astonished because there was no requirement of title insurance or an attorney's opinion. Very basic things that protected SBA weren't included in the loan closing papers. I called SBA on some of them and asked them if they had made a mistake, and I was informed, "No, we haven't made a mistake, send these in and your loan will be processed." I helped the people and returned the papers. It was only then, after we had already called the matter to SBA's attention, that they turned around and said, "By the way, where's your title insurance or where's your attorney's opinion." He's using statistics up there on the first letter that was sent back. He's ignoring the fact that we would, in good faith, return those papers almost immediately and receive another set of papers. I, myself, am not one of the seven people who have yet been approved. The reason is simply because for the third time SBA has asked for additional documentation. I knew mine was wrong when they sent it here. I close loans for a living and I called SBA and told them that it was. They assured me it was not and I resent the fact that Mr. Darby is insinuating that we've created this problem. The basic problem here is that SBA had a lot of people in their office in Grand Prairie who didn't know what they wanted when they sent those papers back up here. That's a root cause of a good number of these problems. He's right on certain things that he's said about the turnaround time and the application time. Those aren't unreasonable but the people in the office don't know what they expect of us and because they don't know what they expect of us they give contrary instructions; they don't ask for what they want the first time, the second time, or even the third time, and that's what has caused the problem. It's not the people here and I resent the implication and the perverting of statistics in an attempt to show that. I feel compelled to bring that out.

Senator Bumpers. I appreciate that. Dan, are you the lawyer I saw crawling out the window? Where is that lawyer? I wanted to see him.

Dan, thank you very much for coming in. You're perfectly welcome and within your rights to make that statement and I appreciate it.

I don't want to be remiss in not thanking some people. I want to especially thank Judge Woodard for making Lynda Priest available to help us out. She's made all the physical arrangements for this hearing today, which is no small chore. I want to thank Mr. Huto, who is the high school principal here, for making this room available to us, and the superintendent, Mr. Conser, for cooperating, and

Tommy Dale Thompson of the Office of Emergency Services for helping set up this hearing room. I thank all of you who have participated. It's been a good hearing; we will review it; we will make a full report to the full committee, and at this time I will insert questions in the record, George, directed to you from the chairman of the committee, Senator Weicker, which I would appreciate your answering at your earliest convenience so we can close the record and get a report to the full committee.

Mr. **Darby**. Very happy to.

Senator **Bumpers**. Thank you all again.

We stand adjourned.

[Whereupon, at 5:10 p.m., the hearing was adjourned.]

(Subsequent information was received and follows:)

SBA
U.S. Small Business Administration
Area III Disaster Office
2306 Oak Lane, Suite 110
Grand Prairie, TX 75051
FTS 729-7571
(214) 767-7571

Date: May 18, 1983

Reply to
Attn of: George L. Darby
Area 3 Director

Subject: Senate Small Business Committee
Oversight Hearing on Disaster Loan Program
Conducted at Clinton, Arkansas, March 29, 1983

To: Eileen Posey
Congressional Relations Specialist

RECEIVED
MAY [illegible] 32 AM '83
OFFICE OF
DISASTER LOANS

At the March 29, 1983 hearing in Clinton, Arkansas, U.S. Senator Dale Bumpers presiding, several statements which appear unfounded, were made by witnesses before the committee. I respectfully ask the committee to enter the following responses to these statements.

1. Patrick Ellis, State Representative

Summarized Statements:

A. In most cases aid came in the form of short term high interest loans. (p 16)

B. Over 100 days have passed since the disaster and only a few have received loans. (p 16)

Response:

A. The majority of the loans made in Arkansas were at the lower interest rates available. Seventy one percent of home loan approvals were at 6 7/8% interest and sixty nine percent of the business loan approvals were at 8%, the lower interest rates available. The low interest rate loans carry maturities of three to thirty years with the majority of loans exceeding $5,000.00 having maturities exceeding 10 years.

B. As of 60 days after the disaster SBA had received only 64% (415) of the total Arkansas applications submitted. As of the March 29, 1983 Senate Hearing 95% of all disaster applications were processed to the point of approval or denial with an average time, from date of receipt, of 30 days.

2. Thomas G. Baker, State Representative

Summarized Statements:

A. If a disaster victim's income exceeded $600.00 per month they were told they could not qualify for any type of grants or immediate assistance. (p 22)

B. SBA is charging high interest rates to the credit worthy, and granting low interest loans to those that are poor risks. (p 23)

2. Baker, Cont.

Response:

A. The origin of this statement would not be with SBA. This is a misstatement of SBA's policy relative to automatic denial by SBA. If at the time a disaster victim is initially interviewed by SBA it is ascertained that their net income is $600.00 per month or less, they normally are immediately given a SBA letter of loan denial and referred to the Grant Program for grant consideration. Those having net income in excess of $600.00 per month, that are without unusual or extenuating circumstances, are initially given an SBA loan application and encouraged to apply for SBA assistance. Those submitting applications to SBA may also be denied. The $600.00 figure has nothing to do with immediate aid programs such as temporary housing, limited home repair, Red Cross Assistance, etc., which are available to all victims with such needs.

B. This is a common misconception and understandably so. SBA does not make loans to individuals who are poor credit risks. Those who do demonstrate reasonable repayment capability and an acceptable credit history are necessarily divided into high and low interest rate loan categories. The "Credit Available Elsewhere" test is applied to make this determination. Those not having sufficient income to borrow the required funds at commercial rates and not having liquid assets available to assist themselves are granted the lower interest rate SBA loan.

3. Alan Gordon, State Representative

Summarized Statement:

A. It takes 30 days or less to obtain comparable financing from a private lender. Why is SBA not capable of responding in this timeframe? (p 25)

Response:

A. SBA has averaged 30 days loan processing time relative to the Arkansas Disaster. This 30 days represents the average time elapsed from the time an application is received until the disaster victim is notified of approval or denial. The loan closing process commences from this point and its timeframe is governed by the needs and the responsiveness of the borrower.

It should be expected that SBA require more time than the private lender. SBA loan approvals for Arkansas borrowers averaged $13,500.00 for home loans and $48,100.00 for business loans. In contrast to a local lender familiar with local applicants, the SBA loans were made to individuals and businesses that, prior to receipt of their application, were completely unfamiliar to SBA. SBA must therefore do a more in-depth analysis requiring more time and data than does the local banker.

4. Jean Eoff, Eoff Furniture Co., Inc.
Loan Approval: $148,800.00 at 8% for 15 years

4. EOFF, Cont.

Summarized Statement:

A. SBA funds were not available when needed. On the 77th day after the flood they had received only 68% of their approved loan. (pp 30-31)

Response:

A. Eoff Furniture Co., Inc. application was received by SBA on December 21, 1982. The Loss Verification was conducted on December 22, 1982. The application was approved January 5, 1983 and on January 7, 1983, 17 days after receipt of the application, loan closing documents were mailed to the Borrower. The executed closing documents were received on January 17, 1983 and an initial disbursement of $60,800.00 was ordered on January 27, 1983, 37 days from the date the application was accepted. Ten of the aforementioned days were expended awaiting the Borrowers return of the closing documents. On March 15, 1983, upon Borrower's proper documentation of expenditure of the initial disbursement an additional $33,600.00 was ordered disbursed.

On pages 67 and 68 of the transcript, Mrs. Eoff was questioned by Senator Bumpers as to why she did not have the rest of her loan funds. It was then established that she was not anticipating a need for the balance and had not taken the required action to initiate another loan disbursement.

5. Robert Shannon, Shannon Supply Co., Inc.
Loan Approval: $124,200.00 at 8% for 15 years
Shannon Development Co., Inc.
Loan Approval: $ 43,000.00 at 11 ½% for 3 years

Summarized Statements:

A. False expectations of immediate assistance from SBA was disseminated by the Federal PR people. (pp 33)

B. Application for loss of business and income was denied despite a $40,000.00 reduction in income for first three months of 1982. Denial was based upon fact that business was currently operating. (pp 34-35)

C. The terms offered on the Shannon Development Co. loan were unreasonable at 11 ½% over 3 years. These terms would require payments exceeding Shannon Developments gross rental income of $12,000.00 per annum. (p 36)

D. The Shannon Supply loan approval is conditioned to disallow note payments on two notes payable to three former stockholders. This eliminates the former stockholders major source of income. (p 37)

E. SBA loss verification allowed only $200.00 for replacement of a manual and an electric typewriter. (p 65)

F. The amount of the loan (Shannon Development) was equal to only 20% of the value of the real property taken as security. Despite the ample real property collateral, SBA also required inventory, accounts receivable and their homes as loan collateral. (pp 68-69)

5. Shannon, Cont.

G. Their loan application had not yet been approved. (p 69)

H. Loan approval is unfairly conditioned to require that borrower maintain inventory and accounts receivable at a level no less than 150% of the loan approval. Senator Bumpers felt that this condition appeared very stringent for disaster lending. (pp 136-137)

Response:

A. Mr. Shannon's testimony ties these false hopes to statements made by another agency. SBA representatives are very much aware of processing time requirements and would not make these assertions.

B. This application was filed under the Economic Injury Disaster Program. Economic Injury loans are not based upon the operational status of a business nor are they evaluated strictly on the basis of loss of gross income. An applicant must be substantially economically injured to the extent of becoming incapable of meeting operating expenses and/or servicing fixed debt that could have been met had the disaster not occurred in order to qualify for Economic Injury Loan Assistance. The company suffered a significant loss but was able to meet its obligations out of its resources and Mr. Shannon's resources. Therefore the company did not qualify for this program.

C. The terms as stated by Mr. Shannon, 11 ½% interest rate, three year maturity are correct. These are the most lenient terms SBA could offer Shannon Development in accordance with existing legislation for SBA applicants capable of obtaining the needed assistance elsewhere. Shannon Development holds $200,000.00 in real property and has no debt. The three stockholders are excellent guarantors. An SBA loan could not be authorized on a more favorable basis under present legislation.

D. The SBA loan to Shannon Supply Co., Inc. was conditioned to include a debt Standby Agreement on two notes of $191,000.00 each owed by Shannon Supply, Inc. for the stock acquisition from former stockholders of Shannon Supply who continue to be major stockholders in Shannon Development. Shannon Development is the holding company for the real estate utilized as the commercial facility of Shannon Supply.

With respect to those individuals who are not actively involved in the business, normal payments on these notes are $18,000.00 per annum principal and interest for each obligation. The SBA Standby Agreement disallows principal payments by Shannon Supply on these debts but does specify that interest may be paid, amounting to $13,400.00 per annum for each note, as long as SBA loan payments are current. With respect to those individuals who are actively involved in the business, the Standby Agreement disallows both principal and interest payments.

5. Shannon, Cont.

The Standby on these debts was required to divert income totaling $9,200.00 per annum from the former stockholders to be available for SBA debt repayment. Shannon Supply could not demonstrate repayment ability without the Standby Agreement and would reflect a net worth of $<148,700.00> due to mandatory recognition of this $382,000.00 in debt. The Standby Agreement was absolutely necessary to make this loan possible, and the SBA financing made available is indirectly to the benefit of the former stockholders that are asked to execute this agreement.

E. The SBA Loss Verification report for Shannon Supply made allowance of $600.00 for two typewriters, one manual and one electric. The applicant's loss listing reflected $24,800.00 in total damages to machinery, equipment, furniture, fixtures and supplies. SBA Loss Verification recognized $22,400.00 in these categories.

F. Mr. Shannon is 33.3% stockholder of Shannon Development, holding it equally with two other shareholders. The Shannon Development loan of $43,300.00 was secured by a first lien on commercial real property, the sole asset of the corporation, valued by the applicant at $150,000.00. The premises taken as collateral is that which is to be repaired utilizing the subject loan. The personal guarantees of the three shareholders was also required. Principals are normally required by SBA to guarantee Disaster Loans to Corporations.

Mr. Shannon is the sole stockholder of Shannon Supply, which operates from the above described premises owned by Shannon Development. Prior to the disaster Shannon Supply had no fixed assets with book values other than autos and trucks of $28,200.00. The collateral requirements for this loan of $124,200.00 are first security interests in the inventory and accounts receivable, the only available assets, which reflected a combined value of $287,300.00 prior to the disaster. Although this alone is presently adequate to secure the loan it would in probability prove inadequate should foreclosure be required.

Inventory and accounts receivable are normally subject to rapid depletion when a retail business encounters serious difficulties. These assets upon forced sale bring only a percentage of their book value. For this reason the personal guarantee of Mr. Shannon for this loan was required to be secured by a second lien on his residence, with a $51,000.00 equity, to provide material security to SBA.

5. Shannon, Cont.

The collateral proposed to secure these two Disaster Loans does encompass all major assets of Mr. Shannon with the exception of significant cash holdings. The prescribed collateral, as delineated above, is required to adequately secure both loans while maintaining continuity between the corporate borrower and the assets utilized as security.

Had Mr. Shannon been the sole stockholder of both corporations, the real property owned by Shannon Development would have sufficed to secure both loans. However, to propose this under the present ownership structure would further compromise the two stockholders of Shannon Development that have been asked to execute Standby Agreements to the benefit of Shannon Supply in which they have no ownership.

G. Both Shannon Development and Shannon Supply applications were approved on January 31, 1983. No funds had been disbursed on either loan as applicant had not, as of the time of the hearing, returned the loan closing documents mailed him on February 8, 1983.

H. This type of loan condition is imposed only on business loans that are principally secured by inventory and accounts receivable. It is further restricted to those situations in which it would not cause the business to alter the inventory and accounts receivable levels that are normally carried.

Prior to the disaster, Shannon Supply's inventory and accounts receivable were at $287,300.00, a level equal to 230% of the approved loan. Conditioning this loan to require the applicant to carry inventory and accounts receivable at 150%, $186,300.00, creates no hardship or imposition. Latitude does exist for normal levels to decrease by $100,000.00 without violation. The required decreases with the loan balance. Should Borrower need to reduce the level inordinately, this condition could later be modified by SBA if so warranted.

The purpose of requiring levels to be maintained in excess of the loan balance is to make allowance for substantial reductions in the amount normally received (relative to book value) should it be necessary to foreclose.

6. Roger Rorie, Clinton Motor Co., Inc.

Summarized Statement:

A. SBA loan approval requires repayment at $5,736.00 per month which is beyond the capability of his auto dealership. (p 40)

Response:

A. Mr. Rorie holds 20% ownership in Clinton Motor Co. The two other stockholders with 35% each have outside net worths exceeding $1,000,000.00. These same individuals have liquid assets outside the corporation of approximately $170,000.00. In view of the financial strength of these principals and of the applicant corporation the applicant clearly qualified for 11 ½% interest, 3 year maximum maturity assistance only.

6. Rorie, Cont.

The applicant does have repayment capability for the proposed loan. This business was newly established in April 1981. The 1982 earnings statement reflects a net profit of $160,000.00 after officer's compensation of $25,800.00. The proposed SBA payback, requiring $68,800.00 per annum, appears affordable to this business.

7. Gary Gerracci, dba/G & G Miniatures
Business Loan Denied
Home Loan Applicant
Loan Approval: $15,900.00 at 6 7/8% for 30 years

Summarized Statements:

A. The loss to this business was stated as $35,000.00 in stock and a loss of $105,000.00 in contracts. (pp 44-45)

B. During a telephone conversation with an SBA employee he was told that if he wanted to get something out of the Government he should "learn to lie, cheat, and steal." Mr. Gerraci also stated it was his understanding that the employee who said this no longer works for SBA. (p 47)

C. The $5,000.00 grant which he obtained from the State Grant Program would have to be payed back out of his SBA home loan proceeds. (p 48)

D. SBA allowed only $4,100.00 to replace the destroyed mobile home. This is insufficient. (p 49)

Response:

A. Despite serious attempts, SBA Loss Verifiers were unable to document any business loss for Mr. Gerraci. Physical evidence of this loss was not available. Corroboration of prior ownership of the alleged destroyed personal property could not be obtained from third parties, nor were any records available to verify it. Mr. Gerraci states he commenced business two weeks prior to the disaster but could not provide evidence of any initial stock purchases through the records of any suppliers.

Mr. Gerraci's loan application reported a figure of $44,500.00 loss in tools, inventory and stock. He documented this loss by submission of listings of items without prices. The items listed were of minimal monetary value, including model paint, tweezers, decals, coffee stir sticks, piano wires, and many others of a similar nature. If priced out this listing would total less than $5,000.00. The $44,500.00 loss claimed by Mr. Gerraci is certainly undocumented. The items listed appear the accouterments of a hobby, which are ineligible for SBA assistance.

SBA was unable to verify that Mr. Gerraci was seriously in business as a model builder. The only verifiable sale made by Mr. Gerraci is the steamboat referred to in his statement. Mr. Gerraci made no mention to SBA of losing $105,000.00 in contracts. SBA remains unaware of any contractual obligations of any kind.

7. Gerraci, Cont.

B. Despite serious effort, SBA was unable to discern the employee who allegedly made such a statement to Mr. Gerraci. It is not expected that anyone would admit to such a statement, but it is equally unlikely that this statement would have been made by an SBA employee.

It should be noted that all employees who have worked on Mr. Cerraci's applications are still employed by SBA.

It should also be noted that Mr. Gerraci's testimony concerning this alleged incident appears illogical. It seems surprising that Mr. Gerraci was able to discern that the person who had made this statement was no longer with SBA when he has no knowledge as to the identity of this person.

C. Mr. Gerraci does not have to pay back the $5,000.00 grant. In view of limited repayment ability the maximum SBA loan term was authorized and loan eligibility was intentionally reduced by $5,000.00 to allow Mr. Gerraci to retain the grant.

D. The amount of SBA loan proceeds allocated for replacement of the mobile home was $4,100.00. However, the grant funds of $5,000.00 are to supplement SBA's allocation to create a total of $9,100.00 for unfurnished mobile home replacement.

Mr. Gerraci's mobile home was a 1972 model with N.A.D.A. book value of $5,300.00. He paid $2,500.00 for this home in 1980. In addition to the mobile home funds, SBA proceeds of $10,000.00 for furnishings and personal property, and $1,800.00 for chain link fence were authorized.

8. Kevin King, Attorney, Hardy, Arkansas

Summarized Statements:

A. Mr. King expresses general dissatisfaction with SBA's lack of timely response and assistance relative to applications submitted by Hardy, Arkansas disaster victims.

B. SBA denied one of Mr. King's business client's loan applications due to a lack of cash flow. This business applicant in one year alone had managed to reduce the principal on his bank loan by $30,000.00 plus pay the interest. Mr. King questioned how SBA can conclude that this applicant does not have sufficient cash flow? (p 58)

C. SBA was inflexible and uncreative in considering Business Disaster loan requests. (p 59)

Response:

A. The town of Hardy, population 643, did not fare well with SBA. Ten business loan applications were received. Six of these were denied and four were withdrawn. Ten home loan applications were also received. Three were approved, 5 denied, and 2 were withdrawn. All business and home loan applications denied were due to very evident lack of repayment ability. All applications withdrawn were for failure to respond to repeated requests for additional data necessary to complete the application.

8. King, Cont.

Although SBA's response to Hardy applications was in most instances by necessity negative, it was not untimely. For Hardy applications, the average time from the date the application was received until the applicant was notified of approval or denial was 29½ days. For withdrawn applications the average was 40 days due to time expended awaiting for responses to SBA information requests that went unanswered.

B. The applicant herein referred to did not pay off a principal loan amount of $30,000.00 as stated by Mr. King. They did manage to pay down approximately $16,000.00 in principal and $20,000.00 in interest on a bank debt. This was somehow accomplished with a cash flow, as reflected by Federal Income Tax Data, of $29,800.00 per annum.

The applicant is required to continue making this bank payment totalling $36,000.00 annually thru 1986. SBA could not approve this $107,000.00 request in view of the total absorption of the cash flow by the repayment requirements of the Bank obligation.

C. It is Mr. King's contention that if SBA concluded that an applicant could not afford to repay a $150,000.00 loan, SBA should be creative and consider a $25,000.00 or $50,000.00 loan, or whatever amount the applicant could afford to repay.

This approach is instituted where practical. However, the flexibility in payment adjustment afforded by the maximum 30 year maturity limits the number of cases where the approach is applicable. The majority of applicants that cannot repay the amount of their loan eligibility within 30 years cannot afford repayment of any kind. In addition, these limited number of applicants that could possibly repay a loan of a much lesser amount could not be returned to productivity if only 20 to 50% of their business loss was restored.

9. Charles Redwine, Royal Oaks, Inc.
Initially Withdrawn
Application Being Reconsidered
Loan Request: $188,100.00

Summarized Statements:

A. It is unrealistic that SBA insists upon a 1983 projection on a business that is nonexistent. (pp 73-74)

B. Processing of Royal Oaks, Inc. application has been unnecessarily delayed by SBA. Each time that information is submitted the SBA responds by asking for yet more information. It seems that someone should determine all the information that is missing when an application is initially submitted, rather than doing it piecemeal. (pp 74-75)

Response:

A. It is a normal business practice that when a new business proposal is contemplated or relocation of a business is considered that the feasibility of same be thoroughly evaluated by both owner and lender. A projection of earnings and expense is a basic component of this evaluation.

9. Redwine, Cont.

B. The need for several SBA requests for additional information stems from three factors: (1) The original application as submitted was basically incomplete. (2) The loan request was later altered by the applicant from $62,400.00 for repairs to $188,100.00 for relocation. (3) As additional information was supplied it became evident that Mr. Redwine apparently owned this restaurant via a different corporation prior to October 1982. The initial application made no mention of involvement prior to the October 1982 acquisition by Royal Oaks, Inc. (Held solely by Mr. Redwine). The initial application reflects profits exceeding $3,000.00 per month. In contrast, it appears that the prior corporate owner, Redwine Enterprises, Inc., operated this establishment at a significant loss. This discrepancy has not been explained. Perhaps the applicant or his representative was unaware of the importance of this information and its pertinence to the processing of the application. Until Senator Bumpers questioned the applicant, SBA had no knowledge that Mr. Redwine was involved in this business since 1979 with profitability "fairly marginal". The application data supplied to SBA reflects involvement since October 1982, with profits exceeding $3,000.00 monthly. This is an example of why SBA has had to repeatedly ask Mr. Redwine for additional information.

This application was packaged by Mr. King, Attorney, and witness number 8, as referenced by this memo.

10. Dr. Ralph Tester, dba/Large Animal Veterinary Clinic
Loan Approval: $12,400.00 at 8% for 6 years
Also Home Loan Applicant:
Loan Approval: $9,000.00 at 6 7/8% for 7 years

Summarized Statements:

A. It was late February before we even heard anything back from SBA. (p 78)

B. It is not acceptable that SBA is requiring $30,000.00 to $50,000.00 collateral for the $12,400.00 Disaster Business Loan. (p 80)

Response:

A. Dr. Tester submitted his applications on January 6, 1983. On January 7, 1983 an on-site Loss Verification was conducted by SBA with Dr. Tester in attendance. On January 17, 1983, the Grand Prairie Processing Center mailed a request for submission of additional information required for completion of the application. The requested data was received on January 31, 1983. On February 3, 1983, SBA mailed notification of denial due to lack of repayment ability based upon past income records.

On February 11, 1983, a request for reconsideration was received from Dr. Tester. On February 23, 1983, applicant was telephoned and a basis for reconsideration was established. On February 28, 1983, information concerning January and February, 1983, income was submitted and on March 3, 1983, both home and business applications were approved and applicant was so notified.

10. Tester, Cont.

Dr. Testers File data, as reflected above, clearly refutes the statement that he did not hear from SBA until late February. It also dismisses the implication that SBA was inactive in processing his request.

B. The assets securing these loans are valued at approximately $27,000.00 by the borrower. All collateral has prior liens with exception of the home personal property which applicant is to acquire with the $9,000.00 home loan proceeds. At present Dr. Tester has no equity of any kind. His combined business and personal net worth is $<18,600.00>. SBA, per regulations, made this loan without adequate collateral under the provision that borrower offer all available collateral.

11. Ann Young, Paid Director Interfaith Disaster Relief Committee, Little Rock, Arkansas

Summarized Statements:

A. Ms. Young acted as the liaison between the Government Agencies and the church volunteer sector. In this endeavor she worked with more than 300 individual families. Her experience was that dozens of these cases received, in one manner or other, improper treatment by SBA. (pp 99-107)

B. Personally outraged at the requirement that disaster victims get an SBA denial prior to being approved for a Family Grant. (p 100)

C. Disaster victims were not informed of the possibility of incorporating existing mortgages into SBA Disaster Loans. (p 103)

D. Dozens and dozens of people who had no advocate lost out entirely because they did not understand the process. In many cases victims did not make any contact with SBA because the name is misleading to individuals needing assistance.

Response:

A. The SBA management personnel who administered the disaster loan program in Arkansas were very surprised at the testimony of Ms. Young. SBA made every effort to assist Ms. Young in her work as Director of Interfaith Disaster Relief. Ms. Young's statement (p 99) reflects that she "found the SBA personnel very cooperative".

Mr. Chatham and Mr. Burkholder, the SBA managers for Arkansas, made many open offers to assist Ms. Young during jointly attended State/Federal coordination meetings that were held very frequently during December and January. Offers were made to hold instructive classes for Interfaith Volunteers to school them in completing SBA application forms. A diligent effort was made to assure Ms. Young that SBA was ready to assist in any way possible. These efforts can be verified through Al Ray and Brenda Johnson, FEMA officials in attendance at these meetings.

In response to SBA's offers Ms. Young consistently responded that no assistance was necessary as no real problems existed. Ms. Young never once approached Mr. Chatham nor Mr. Burkholder with any inquiries or any problems of any nature.

11. Young, Cont.

B. The requirement for SBA loan denial prior to approval for the State Grant is necessary to comply with legal requirements. This procedure delineates those capable of loan assistance from those incapable. The State Grant Program is structured to assist only those incapable of obtaining disaster loan assistance from SBA.

For Presidentially declared disasters, disaster victims attending a Disaster Activity Center are generally first interviewed by SBA. If it is evident that the individual cannot repay a loan, based upon questions asked by the SBA interviewer, the victim is issued an SBA letter of loan denial on the spot without making a formal loan application. These individuals are then directed to the State Grant personnel, within this same center, with SBA denial in hand. This eliminates the need for filing a formal SBA loan application if it is initially obvious that repayment ability does not exist, and eliminates the time and effort that would be expended in reaching a predeterminable decision. In Arkansas 607 of the 2,200 victims interviewed by SBA were routed directly to the State Grant Program in this manner.

C. This is not so. All Disaster Home Loan Applicants are issued an application package that includes a pamphlet on the Disaster Home Loan Program. This pamphlet contains a listing of questions that are frequently asked about SBA assistance, followed by the answers. Question number 3 of this listing is "I already have a mortgage on my home. Can SBA refinance my mortgage?" A one paragraph answer follows.

D. It would appear that Ms. Young should be the advocate of those victims who she has personal knowledge of that did not attend the Disaster Activity Center in their vicinity. It is surprising that she was aware of this and made no effort to inform SBA and ask for assistance.

The name of SBA would prove misleading to the uninitiated seeking home loan assistance. However, Disaster Activity Centers were established at 45 points throughout Arkansas. Any victim that attended any one of these centers would not have been allowed to leave without an SBA interview that would enlighten them as to what assistance might be available. Therefore, the impact of a misleading name is not of consequence.

12. Dan Stripling, (recorded as Strickland), Attorney
Loan Approval: $28,800.00 at 8% for 10 years

Summarized Statement:

A. For the third time SBA has asked for documentation. Because they don't know what they expect of us they make several requests for closing documentation and this is what slows the disbursement of the loans. (pp 141-142)

Response:

A. Mr. Stripling submitted his application on December 20, 1982. It was approved on January 7, 1983, and closing documents with instructions were mailed to him on January 12, 1983.

12. Stripling, Cont.

The initial closing instructions mailed Mr. Stripling requested 14 items to be filed and/or executed and submitted. Applicant responded in part on January 31, 1983. On February 11, 1983, a follow-up request was mailed reiterating 3 items previously specified, and adding the need for a title opinion. On March 15, 1983, another request was mailed by SBA reiterating 3 of the items previously asked for, and adding that a copy of the building permit would be required prior to disbursement of real estate repair proceeds. Mr. Stripling's response was received on March 21, 1983. On March 22, 1983, another SBA request was mailed reiterating the need for two of the items previously requested and asking for evidence of expenditure for $5,000.00 in SBA loan proceeds.

The need for several requests for information by SBA was not the result of previous SBA omissions, with exception of the initial deletion of the need for a title policy and building permit which were SBA oversights. These errors had no obvious bearing on the disbursement of subject loan. In fact, the applicant did not provide all the items required by the initial closing instructions until March 25, 1983, after he had supplied the additional material requested.

During the aforementioned exchange of requests and submissions, loan disbursements were ordered of $5,000.00 on February 14, 1983, and of $10,000.00 on March 23, 1983. The loan approval was reduced to $18,800.00 on February 28, 1983, due to Mr. Stripling's receipt of insurance proceeds which duplicated SBA loan funds.

for Edward E. Van Schaick, Jr.

George L. Darby
Area 3 Director

APPENDIX

ANSWERS OF THE SMALL BUSINESS ADMINISTRATION TO QUESTIONS OF SENATOR WEICKER

Hearing dated March 29, 1983
Clinton, Arkansas

Question 1A: Mr. Darby testified that SBA's disaster team spent one full month interviewing victims and screening applications. He also testified that the average turnaround time on processing applications was approximately 25 days.

How many applicants were interviewed?

Answer:

1,778	Home/Personal Property Interviews
417	Business Interviews
2,195	Total Interviews

Question 1B: Of those interviewed, how many were rejected and approved?

Answer: Of the 1,778 home/personal property interviews, 207 were given desk-top denials at the Disaster Assistance Centers. Those desk-top denials are given to those victims whose incomes are so low that it would be impossible for them to repay a loan. The desk-top denial or instant decline is a method of expediting assistance to those individuals who must seek assistance from the state's Individual and Family Grant Program. (An SBA decline is a prerequisite for most grant approvals.)

Of the remaining 1,571 (1,778 less 207), 512 actually returned their applications and applied for SBA assistance. Of those 512 Home/Personal Property applications, 54 (10.5%) were withdrawn either by the applicant or the Agency; 191 (37.3%) were declined*; 230 (44.9%) were approved, and as of COB 03-31-83, 29 (5.7%) were awaiting additional information in order to complete the processing phase.

Of the 138 Business Loan applications received, as of COB 03-31-83, 24 (17.4%) had been withdrawn by either the applicant or the Agency; 52 (37.7%) had been declined; 64 (46.4%) had been approved, and 3 (2.2%) were awaiting additional information to complete the processing phase.

*The vast majority of the declines were to low-income applicants whose income was considered marginal at the DAC's and were therefore given an application. Under the present system, a decline from SBA is a necessary prerequisite for obtaining a grant from the state.

Question 1C: What was the average turnaround time from the date the application was received to the date approved loans were actually disbursed to the applicants?

Answer: In the Arkansas disaster, the average time from the date an application was filed to the date closing documents were mailed to the applicant (or the applicant was notified that his/her application had been withdrawn or declined) was 29.1 days.

Generally, closing documents are executed and completed by the borrower and returned to SBA where they are reviewed for correctness. Subsequently, the SBA fiscal office in Denver is authorized to disburse directly to the borrower. This timeframe varies, depending on the date the borrower returns the closing documents. As of COB 03-31-93, we had authorized disbursements on 87 loans and the time from the date of application to the date of authorized disbursement ranged from a low of 25 days to a high of 96 days, for an average of 49.9 days.

After the SBA fiscal office is authorized to disburse, the borrower receives the check in approximately 7 to 10 days.

Question 1D: How many persons were used by SBA in the Arkansas Disaster?

Answer: During the Arkansas disaster, 21 SBA employees were on site in Arkansas, to interview applicants for disaster loans, receive their applications, and verify their losses by on-site inspection. The applications were then sent to the Area 3 permanent disaster office in Grand Prairie, Texas, where they were processed by a staff of 40, who devoted between 30% and 50% of their time to applications generated by the Arkansas disaster.

Question 1E: Are more disaster personnel needed to expedite the application process?

Answer: As the question applies to the Arkansas disaster, I would have to answer NO. Bear in mind that we have temporary hiring authority which gives us the flexibility to expand in times of peak workloads and reduce during those periods of inactivity.

Question 2. SBA recommends that disaster victims use interim financing to pay for immediate repairs while a disaster loan application is pending. SBA provides disaster loans to repay interim financing.

However, many disaster victims can only afford interim finacing contingent upon receiving an SBA disaster loan. Will SBA expedite loan applications for applicants who may use interim financing in order to assure these individuals that interim financing will not further jeopardize their financial position?

Answer: First of all, let me say that we expedite cases all the time, cur basic criteria for expediting being either physical or financial hardship. I have difficulty answering this question for I am not sure I understand the context in which it is asked. For example, if a victim is able to arrange for interim financing, they are able to arrange for a more immediate solution than someone without that financial ability. That being the case, expeditious processing of their application is less critical to them than to someone unable to obtain that type of assistance.

Actually, there would be two types of interim financing in a disaster. The first applies to those who are able to obtain bank loans up front based strictly on their relationship with their banks. This could occur either before or after submitting an SBA application, but prior to processing of their application. The second type would be those individuals and businesses who, once they have received a loan approval from our Agency, but not an actual disbursement, obtain interim financing based on the strength of the SBA loan commitment.

We are, at the present time, and as a result of our Arkansas experience, developing a program to go into future disaster areas and meet with the banking community to better explain our own program to them and to form a closer bond with them so that we can work together to effect a speedier response. While the interim financing option has always been available, we feel we must do a better job of utilizing this valuable tool in the future.

Question 3A: What percentage of the applicants in Arkansas was deemed credit worthy and received loans at the higher interest rate?

Answer: First of all, let me say that as of 03-31-83, we had approved 294 loans in the State of Arkansas. All were deemed to be "credit worthy." Eighty-seven (87) of those were deemed to have "credit available elsewhere," as defined under our guidelines, and were given the higher rate of interest.

The breakdown of approvals is as follows:

Type of Loan	Low Rate		High Rate		Total	
Home/Pers. Prop.	163	70.9%	67	29.1%	230	100 %
Business	44	68.8%	20	31.2%	64	100 %
Total	207	70.4%	87	29.6%	294	100 %

Question 3B: How many applicants whose loans were approved at the higher interest rate rejected the loan because of the higher rate?

According to our records one applicant withdrew his request for a loan due to the high interest rate and 5 approved loans were cancelled for that reason, for a total of six (6). This represents 01.9% of all loans approved.

Question 4A: How many applicants in Arkansas rejected loan approvals because of the time involved in processing the applications?

Answer: None that we know of.

Question 4B: Overall, how many applicants whose loans were approved rejected the loans, for any reason?

Answer: A total of 14 borrowers cancelled their loans after approval for the following reasons:

High interest rates	-	5
Sold damaged property	-	2
Collateral requirements	-	2
Payments too high	-	1
No reason given	-	4
Total		14

In addition, prior to actual approval but subsequent to being notified of pending approved loan terms and conditions, a total of eight (8) applicants withdrew their requests for an SBA loan. These withdrawal requests were for the following reasons:

High interest rate	-	1
Help available elsewhere	-	1
Insurance settlement sufficient	-	1
Small amount of loss	-	1
No reason given	-	4
Total		8

Question 5: What steps in the application processing system cause the greatest delays?

Answer: I sincerely believe that we have the interviewing, screening, verification, processing, and typing phases operating very efficiently. We are continually reviewing and refining the operation to give better service but on the whole I feel it is working well. Because of the split interest rates, we must do what we call a "test for credit elsewhere" and this is somewhat more time-consuming than simply processing the loan as we did prior to the split interest rates. Other than that, I feel the time delay from mailing the closing documents until return of those documents is too great. There can be many reasons for this, but I feel as an Agency we must attempt to find out exactly what the problem(s) is. We are going to contact all those borrowers who have yet to return their closing documents and ask them to tell us what problems they are experiencing. From this we hope to simplify the process to the maximum degree possible.

I sincerely hope that the above information will assist you in your endeavors. If you have additional questions or want further clarification of anything contained in this report, we will be most happy to comply with any request.